KCB

2022

Integrated Report and Financial Statements

For People. For Better.

Regulated by the Central Bank of Kenya

About this Report

Scope and purpose

The KCB Group Plc Integrated Report and Financial Statements is our principal reporting disclosure for 2022. The goal of this report is to provide our stakeholders with a complete and integrated view of how our company operates. In line with our purpose, **For People. For Better.** this report provides our stakeholders with a concise view of KCB's business model, strategy, governance, approach to risk, financial outputs, and outcomes for all stakeholders. It also provides a balanced assessment on how we leverage the capitals at our disposal to execute our strategy to create and preserve value, while minimizing value erosion over the period.

Reporting period

It covers the period from 1 January 2022 to 31 December 2022. Notable material events after this period and up to the publication of this report on 3 May 2023 have also been included.

Forward-looking statements

This report contains certain forward-looking statements about the Group's financial position, results, strategy, operations, and businesses. These statements and forecasts involve risk and uncertainty, as they relate to events and depend on circumstances that may occur in the future. There are various factors beyond the Group's control that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Consequently, forward-looking statements are not guarantees of future financial or operating results.

Reporting universe

This Integrated Report is supplemented by various periodic publications and online disclosures to meet the diverse information needs of our stakeholders. These include:

Group Sustainability Report	This report details our progress in integrating environmental, social and governance (ESG) practices in our strategy. It is prepared in accordance with the Global Reporting Initiative (GRI) standards and the recommendations issued by Task Force on Climate-related Financial Disclosures (TCFD). The 2022 report is available at https://kcbgroup.com/sustainability/
Financial Disclosures	• Quarterly Financial statements and other disclosures • Quarterly Investor Presentations These disclosures provide an update on the Group's financial results and operations. The 2023 disclosures will be available at https://kcbgroup.com/investor-relations/ on the dates listed on the investor calendar on page 13.
Shareholder Information	**Notice of KCB Group's Annual General Meeting and proxy form.** The notice and proxy form provide valuable information to shareholders who want to participate at the Group's 52^{nd} annual general meeting to be held on 25 May 2023. **Outcomes from the AGM** The polling results and responses to questions raised are published on our website after the conclusion of the AGM. **Shareholder profile** These quarterly disclosures provide a breakdown of the Group's shareholding structure. They are available at https://kcbgroup.com/investor-relations/

About our Cover Concept

For People.
For Better.

Our cover depicts the ushering in of our next chapter at KCB guided by our new brand purpose, For People. For Better. Through this purpose, we seek to build a unified team that acts as one in thought, purpose, and values. We have highlighted this through a composite image capturing the diverse nature of our stakeholders cutting through nationality, gender, culture, age, ethnicity among others.

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Approach to integrated thinking

Our integrated thinking approach to decision-making, management and reporting facilitates the alignment of our purpose and values to our strategy and guides our value creation process. We applied the principle of double materiality in assessing the material matters included in this report. Material matters are those matters with the ability to significantly influence value creation over the short, medium, and long term.

In identifying our material matters, we relied on a Group-wide process which incorporated input from all our subsidiaries. This process enabled us to identify issues that have the potential to impact our ability to create, preserve or erode value for our stakeholders. We thereafter prioritized those with the greatest relevance in our operations, validated these material matters against our strategy and continuously assessed them to ensure that our strategy remains relevant.

Our audience

This report primarily is addressed to our shareholders, but we have also included information relevant to our other stakeholders including employees, customers, debt holders, regulators, partners, and society.

Reporting frameworks

This report was developed in accordance with international best practices, reporting guidelines and prudent accounting standards. It complies with the Kenya Companies Act of 2015, the Capital Markets Authority's (CMA) rules, the Nairobi Securities Exchange's (NSE) Listings Manual, and the Central Bank of Kenya's (CBK) Prudential Guidelines. This report follows the guidelines of the International Integrated Reporting Council (IIRC) on the presentation of non-financial information.

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRC Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS and the Companies Act of 2015. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and have been prepared on the historical cost basis except where it is indicated otherwise.

The Group continuously strives to incorporate additional frameworks and metrics in our reporting to improve our transparency and meet the diverse information needs of our stakeholders. Please provide any feedback or direct your questions to investorrelations@kcbgroup.com for any additional information on matters contained within this report.

Delivering shared value for our stakeholders Pages 10-15

Our Strategy: Beyond Banking

Through our Beyond Banking strategy, the Group seeks to deliver exceptional customer experience and drive a digital future. The strategy is anchored on four thrusts namely;

Strategy execution Pages 50-59

Our integrated reporting process is under the oversight of the Group Board and the Executive Committee. A cross-functional team composed of different subject matter experts under the leadership of the Group Finance Director curated the content contained in this report.

Our Adopted SDGs

Process and assurance

Our Integrated Report resulted from a Group-wide process with input from various teams across all business lines. This process is under the oversight of the Group Board and the Executive Committee. A cross-functional team composed of different subject matter experts under the leadership of the Group Finance Director curated the content contained in this report.

Our Group Board ensures the integrity of the integrated report through our integrated reporting process. A series of rigorous internal reviews support the accuracy of the disclosures contained herein. This is further corroborated by the external assurance provided by our auditors through their opinion on our financial statements as expressed within this report.

The Group's annual financial statements were audited by PricewaterhouseCoopers LLP as well as those of KCB Bank Kenya, National Bank of Kenya, KCB Bank Tanzania, KCB Bank South Sudan, and BPR Bank Rwanda. KPMG and Ernst & Young audited the financial statements of KCB Bank Burundi and KCB Bank Uganda respectively. MGI Strong NKV audited the financial statements of Trust Merchant Bank, SA.

Digital leader and digital to the core

Drawing from our digital transformation to enhance our report

Guided by our beyond banking strategy, we have been on an exciting digital transformation journey at the Group. In line with our strategic aspiration of being a digital leader and digital to the core, we have embarked on digitization of key processes to drive efficiency and improve customer satisfaction. You will read more about the progress we have made on this front in this report.

It is against this backdrop that this year, we have incorporated digital navigation icons and embedded links on this report. These allow for seamless navigation and avail an enhanced user experience while bringing our integrated report to life.

Our navigation icons

Page	www
Read More	Website Link

A series of rigorous internal reviews support the accuracy of the disclosures contained herein. This is further corroborated by the external assurance provided by our auditors through their opinion on our financial statements as expressed within this report.

Who we are

KCB Group Plc ("KCB" or the "Group") is a non-operating holding company incorporated in Kenya. We are East Africa's largest bank and one of Africa's oldest and strongest banks with over 127 years of operations. The Group is headquartered in Nairobi, Kenya and operates in seven countries in Eastern Africa.

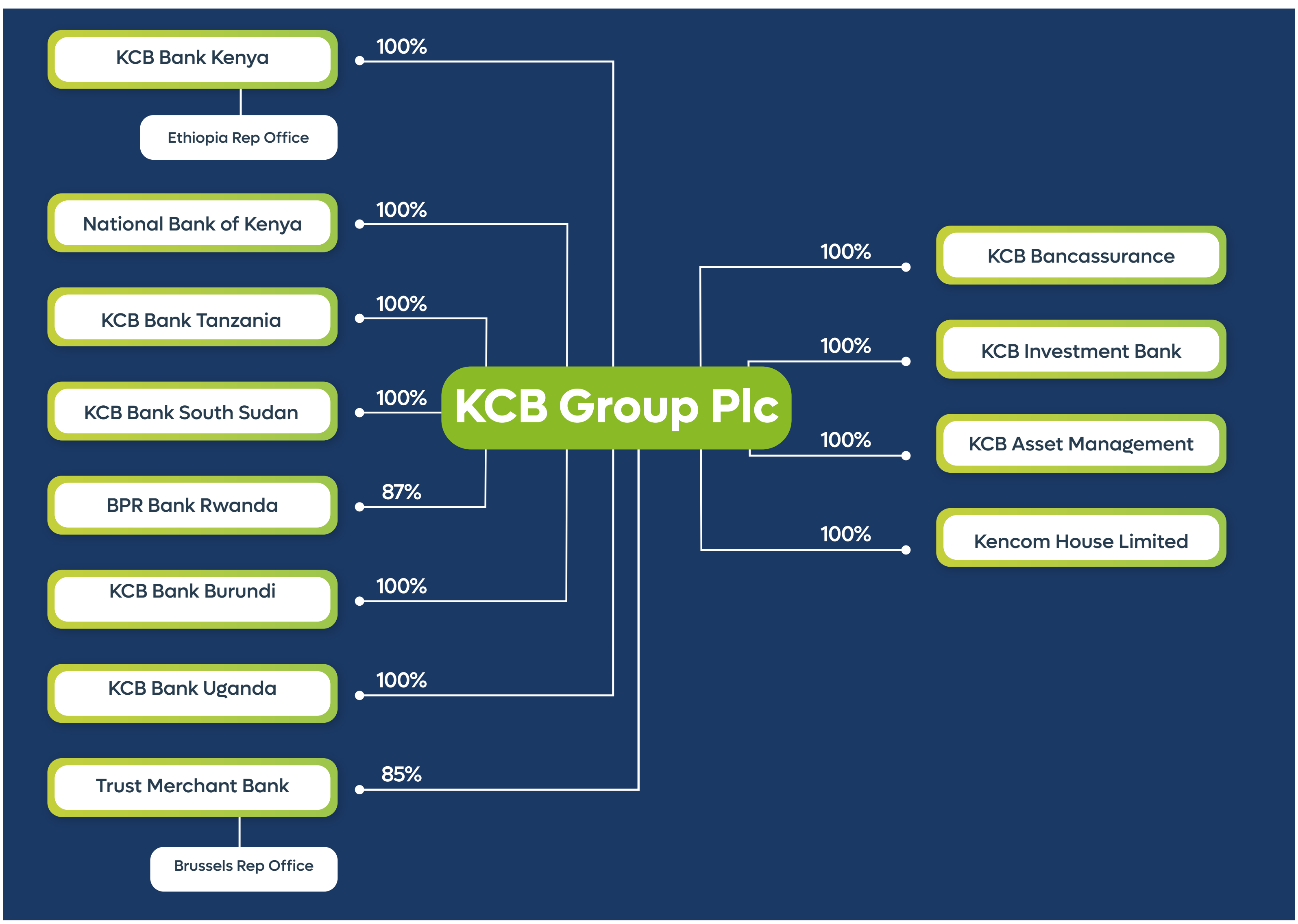
We offer an extensive suite of tailor-made, market leading financial solutions through two key segments of corporate and retail banking. These are complemented by a range of digital financial services, mortgage, bancassurance, investment banking, asset management, and shariah-compliant products to meet the diverse needs of our customers.

Where we operate

In Kenya, we are an industry leader with the largest market share, and two banking subsidiaries. Outside Kenya, we operate in Tanzania, South Sudan, Rwanda, Uganda, Burundi, and Democratic Republic of the Congo. Our subsidiaries KCB Bank Kenya and TMB have representative offices in Ethiopia, and Brussels respectively.

With millions of customers and thousands of employees across the region, the Group has been a catalyst for development for more than a century, facilitating growth and economic advancement, promoting regional commerce, and linking millions of people throughout the world to possibilities on the African continent and beyond.

Our Key Subsidiaries



Our Operating Brands

What Differentiates KCB

As East Africa's largest banking Group, we work towards sustainably harnessing our capitals to deliver superior returns for our shareholders and create shared value for our customers, employees, partners, and communities. Our Group has several characteristics that set it apart including:

Strong balance sheet

Our strong balance sheet enables us to support millions of customers in the region and catalyze economic growth.

Total assets

KShs. **1.55** trillion
#1 in Eastern Africa
(2021: KShs **1.14** trillion)

Net loans and advances

KShs. **863.3** billion
#1 in Eastern Africa
(2021: KShs **675** billion)

Customer deposits

KShs. **1.14** trillion
#1 in Eastern Africa
(2021: KShs. **837** billion)

Dominant and diversified business

Our wide regional footprint enables us to facilitate seamless service, intra-regional trade, and investment flows for our stakeholders.

32.4 million
Customers

603
Branches

1,270
ATMs

28,834
Agents and Merchants

Leader in digital financial solutions

Our innovative digital financial solutions and robust platforms facilitate the provision of exceptional service to customers with unmatched convenience while driving financial inclusion.

99% Proportion of number of transactions conducted through non-branch channels (2021: **98%**)

KShs. **193** billion
mobile loans advanced
(2021: KShs **157** billion)

Superior shareholder returns

Track record in delivering superior returns to our shareholders and consistent dividend payout history supported by sustainable high profitability.

23.0%
Return on equity
(2021: **22.4%**)

KShs. **6.4** billion[1]
Total dividends
(2021: KShs. **9.6** billion)

KShs. **57.3** billion
Profit before tax
(2021: KShs. **47.8** billion)

Leader in sustainability and governance

We have embedded ESG practices in our strategy.

Loans worth KShs. **270.4** billion underwent ESDD screening.
(2021: KShs. **244.8** billion)

We are committed to become Net Zero by 2050

Industry leader in sustainable finance. Committed to increase the proportion of green loans in our loan book to 25% by 2025.
(2022: 12.3%)

Exceptional talent

A diverse team of engaged and experienced employees working to deliver on our strategy. The Group offers superior employee value proposition to attract and retain exceptional talent.

11,098
Staff (2021: **8,538**)

47%
Proportion of female employees (2021: **46%**)

KShs. **30.4** billion
Total employee benefits
(2021: KShs. **25.1** billion)

Strong brand and customer experience

Among top **3**
Most valuable brands in Kenya by Brand Finance

One of only two Kenyan Brands to receive **AAA+** Rating from Brand Finance

56 Net promoter score (2021: **53**)

Renewed focus on customer obsession powered by our new brand purpose, **For People, For Better**

Note:

(1) KShs. 3.2 billion in interim dividend paid. KShs. 3.2 billion recommended as a final dividend for 2022 for consideration at the AGM.

Our Business Model

Our wide regional footprint, strong balance sheet and exceptional talent enables us to facilitate seamless service, intra-regional trade and investment flows for our stakeholders. To deliver on our strategic goals and maintain our position as the market leader, we have set for ourselves ambitious growth goals under our beyond banking strategy. Through this strategy, we seek to deliver exceptional customer experience across all our touchpoints and drive a digital future.

WHY WE EXIST

Our Purpose

For People. For Better.

Our Values

Closer

Connected

Courageous.

Our Inputs: The Capitals we harness

Financial Capital

- KShs. **200.2** B — Shareholders' equity.
- KShs. **63.6** B — Borrowings.
- KShs. **214.2** B — Total capital.
- KShs. **863.3** B — Loans and advances.
- KShs. **1,135.4** B — Customer deposits.

Manufactured Capital

- **603** — Branches.
- **28,834** — Agents and POS merchants.
- Robust Digital Banking Channels.
- **99.99%** — Core banking system uptime.

Intellectual Capital

- Strong customer value propositions.
- Innovative digital products.
- Robust risk management.
- Strong brand.

Human Capital

- Exceptional talent and skillset.
- **11,098** Employees, **47%** are women. **67%** below 40 years of age. **83%** Full-time employees.
- Strong employee value proposition.

Social Capital

- **32.4** Million Customers.
- Diverse pool of suppliers with focus on special interest groups of women, youth, and differently abled persons.
- Strong transformative partnerships.
- Impactful KCB Foundation programmes.

Natural Capital

- Industry leader in Sustainability.
- Signatory to key alliances to champion sustainable practices.
- Alignment towards increasing disbursement of green loans.

Our process

Customer first, with leading value propositions

Step change in efficiency and productivity

Digital leader and digital to the core

Scale to achieve regional relevance.

Our outputs
A well diversified business model that offer an extensive suite of tailor-made, market leading financial solutions to enable our customers transact, save, and make payments.

We extend secured and unsecured credit to our customers based on their repayment ability and our risk appetite.
We offer investment banking solutions and asset management services.

We facilitate provision of protection against insurable risks.

Our outcomes

Value for customers

KShs. **187.8** billion
Loan growth.

KShs **100** billion
MSME loans.

99%
of transactions outside branch network.

NPS
score of 56.

Value for employees

KShs. **30.4** billion
Total employee benefits.

417
promotions in 2022.

Strong employee value proposition.

Value for investors

KShs. **6.4** billion[1]
in dividends.

23.0%
return on equity.

KShs. **153.6** billion
in retained earnings.

Value for government and regulators

Compliance with regulatory requirements.

KShs. **16.5** billion
Income tax expense in 2022.

Value for society

KCB FOUNDATION
programmes continue to deliver meaningful impact across the region.

12.3%
of green loans in our portfolio .

6.1%
of procurement contracts by value awarded to special interest groups.

Note:
(1) KShs. 3.2 billion in interim dividend paid. KShs. 3.2 billion recommended as a final dividend for 2022 for consideration at the AGM.

Stakeholder Engagements

We recognize that our ability to sustainably create shared value is dependent upon building solid relationships with our stakeholders. Our stakeholders entail those individuals, entities, or groups who have an interest in our company or can either affect or be affected by our operations. They include our investors, customers, employees, regulators, and society. We regularly engage with our stakeholders to ensure we understand their evolving needs and expectations. This helps to guide the deployment of our strategy to drive the creation and preservation of value and guard against value erosion.

Customers

Who they are	What are their needs and expectations	Key metrics that we track
Over 32 million customers across seven countries. They include: • Personal banking customers. • Micro, small, and medium size entities. • Medium and large corporates. • Public sector including county governments, national government ministries, departments and state-owned entities • Mortgage customers	• Exceptional customer service. • Accessible and reliable touchpoints. • Affordable financial solutions. • System stability and security on digital channels. • Timely service and faster turnaround times. • Credible brand. • Responsible banking with transparent pricing.	• Net promoter score (NPS). • Customer effort to serve (CES). • System uptime. • Proportion of transactions conducted through non-branch channels. • Credit processing turnaround times. • Brand health score. • Product value propositions for priority customer segments.

Quality of our relationship

Poor — Excellent

We assess the quality of the relationship with our customers considering among other things, feedback from customer interactions, our net promoter score, customer effort to serve, gains in market share and accolades received from independent external organizations.

We engage and serve customers through multi-channel touchpoints. Our customers have access to 603 branches in the region. Through these branches, we manage customer relationships, sell and cross sell products, onboard customers to digital touchpoints and process customer transactions.

Our non-branch channels encompass mobile banking, internet banking, agency banking outlets, and merchant points of sale. These channels offer unmatched convenience to our customers and handled 99% of all transactions (by number) in 2022. In addition, we have a 24/7 multichannel contact centre.

Our key customer engagements in 2022 were centered around business growth and driving customer obsession.

The Bank has continued to leverage media, both mainstream and social, to drive engagement with customers. In 2022, key topics highlighted through our social media channels included launch of new products, leadership transition following the appointment of a new Group Chief Executive Officer, the acquisition in the Democratic Republic of the Congo, business integration in Rwanda, and financial performance.

Social media has become a critical part of our communication today as part of engagement with various stakeholders and addressing customer concerns. It is also a great platform for feedback.

Social media engagements in numbers

- Facebook: **1.22 million** followers, **385 million** impressions
- Twitter: **572,000** followers, **9.4 million** impressions
- LinkedIn: **140,000** followers, **1.9 million** impressions
- Instagram: **53,000** followers, **37 million** impressions
- YouTube: **36,000** followers, **9.6 million** views

Value created, preserved or eroded

- (Value created) Usage of digital channels improved with customers completing 99% of their transactions via our non-branch channels.
- (Value created) We rolled out more innovative products to priority customer segments in MSME, women owned businesses, schools, trade finance among others.
- (Value created) Customer satisfaction levels improved with NPS reaching an all-time high of 56 and CES dropping to 20%.
- (Value created) Improved credit appraisal turnaround times through prescoring, automation and devolving of lending discretion to branches for some customer segments.
- (Value created) Waived transaction fees on Vooma tills and opted to retain the waiver on mobile banking fees for transfers from mobile wallets to KCB accounts and payments to KCB linked tills.
- (Value eroded) Nonperforming loans ratio increased to 17.3% from 16.5% in 2021. However, within the year, we registered improvement down from the high of 22.5% in June. Plans are in place to sustain this reduction further in 2023.

Value created — Value preserved — Value eroded

Employees

Who they are	What are their needs and expectations	Key metrics that we track
The Group has a diverse and exceptionally talented staff complement. Our headcount is made up of: • 11,098 employees. • 47% are women. • 67% below the age of 40 and 91% below the age of 50. • 83% full-time and 17% part-time employees	• Competitive employee value proposition. • Safe and ethical workplace. • Career progression and training opportunities. • Job security and strong leadership.	• Organizational health index (OHI) • Talent retention rate. • Learning and development. • Career progression and skill development programmes.

Quality of our relationship

Poor — Excellent

We assess the quality of our relationship with our employees by considering feedback received during staff engagements, employee attrition rate, learning and development results and remuneration outcomes among others.

We bank on our competitive employee value proposition to attract and retain the best talent

Employee Benefits	
2021	2022
KShs. 25.1 Billion	KShs. 30.4 Billion

At KCB, we create a conducive environment for employees to fulfil their potential and deliver our strategy. We bank on our competitive employee value proposition to attract and retain the best talent. In addition, we provide opportunities for development and career growth, a comprehensive wellness programme and performance-based reward and recognition.

2022 marked a major turning point in our employee value proposition. We launched our 3Es strategy (Brand Experience, Customer Experience and Employee Experience) that focuses on creating a superior employee experience. As part of this strategy, we undertook over 149 staff engagement webinars in 2022, key of which were:

- The captain's address, a periodic Group CEO communication to staff on topical issues.
- Women in leadership network sessions.
- Global money week that was held as part of our financial literacy initiative.
- Change management and mental health awareness sessions.
- Cascade of Group OHI results.
- Cyber security awareness.
- Embedding customer obsession.
- Mental health/awareness among others

We champion mental health, physical wellness and an ethical workplace

Staff under 40 years old	Group OHI Score
67%	79%

Through these engagements we were able to drive the internalization of the Group's strategic direction and values. In addition, we championed a culture of teamwork and nurtured healthy exchange of ideas within teams to drive more collaboration and break silos.

Value created, preserved or eroded in 2022

- Employee benefits grew by 21% to KShs. 30.4 billion driven by increase in overall performance based remuneration in tandem with business growth.
- Group OHI score improved by 900 basis points to 79%, placing the Group at the top decile of global comparison. Following the cascade of survey results to business units, each team drew action plans based on their own survey results but anchored on the priority management practices of the Group. Progress of implementation of action plans is reported on a quarterly basis.
- Proportion of female employees in senior management improved by 800 basis points to 33%.
- 417 staff were promoted in 2022 among other outcomes from activities to upskill our staff (2021: 454).
- We continued to champion mental health, physical wellness and an ethical workplace.
- We continued to focus on diversity and inclusion at the workplace.

Value created | Value preserved | Value eroded

Investor community

Who they are	What are their needs and expectations	Key metrics that we track
Our investor community comprises both equity and debt investors who provide the financial capital to run the Group's activities. This capital, alongside our retained earnings, powers the deployment of our strategy. This community is composed of: • Over 193,000 local and foreign shareholders, including individual and institutional shareholders. • Debt investors. • Fund managers and investment analysts. • Credit rating agencies. • Prospective investors.	• Timely reporting and effective communication. • Consistent capital gains and attractive dividend yield. • Strong revenue growth and sustainable profitability. • Prudent risk management. • Strong capital and liquidity ratios. • Sound ESG practices. • Operational efficiency. • Access to management • Consistent narrative and the delivery of the approved plans	• Relative share price performance to NSE20 index. • Dividends paid and yield. • Return on equity (RoE) • AGM voting outcomes and investor feedback. • Cost to income ratio (CIR) • Adherence to financial covenants

Quality of our relationship

Poor Excellent

We assess the quality of our relationship with the investor community through feedback received during engagements, shareholder value created, business profitability, balance sheet growth, share price performance, consistency of dividend payouts, access to management, understanding of our strategy and compliance with key financial covenants

The Group has a robust shareholder engagement programme that encourages an open and transparent dialogue with existing and potential shareholders. We treat all our shareholders equally; thus, the Board do not take separate meetings with any individual or institutional investors. The Board interacts with our shareholders during annual general meetings and extraordinary general meetings. The Board will engage with shareholders through the forthcoming AGM, to be held on 25 May 2023, and will also continue to communicate with shareholders on important developments throughout the year.

Our primary contact with institutional shareholders and debt investors is through our senior management team who provide a standing invitation to shareholders and debt holders to meet and discuss any matters of concern. Our annual results announcement, half-year results and quarterly results are supported by a combination of investor presentations and results conference calls. The presentations and the statutory financial performance publications are uploaded on our website. The website also provides our shareholders with access to the Group's press releases and profiles of our directors and senior management.

Over the course of 2022, our senior management team engaged with various institutional investors, and participated in investor conferences and road shows, most of which were virtual. The top engagement topics from these interactions included:

- The region's macroeconomic outlook, regulatory developments, and growth prospects.
- Business growth and earnings projections.
- Asset quality trends and outlook.
- Dividend stance in light of regional expansion drives.
- Update on the Group's mergers and acquisitions and the anticipated benefits and underlying synergies

Value created, preserved or eroded in 2022

KCB sustained its consistent dividend payout history with KShs. 6.2 billion payout for the 2022 period.

We posted a strong growth of 20% in net earnings.

Interest paid to debt holders increased by 57% due to additional borrowings and rise in global benchmark rates.

Commenced the process of transitioning from LIBOR to SOFR benchmark for all our debt facilities.

We ensured transparent and timely reporting of relevant shareholders matters including financial results and updates on the TMB acquisition process.

We maintained sound ESG practices evidenced by continued progress towards net zero, high social impact and strong corporate governance.

KCB share underperformed NSE20 index by 430 basis points. The share price depreciated by 16.2% due to capital flight from frontier markets as a result of the global rise in interest rates. However, our fundamentals remain solid, and the low price offers an attractive entry point.

Fitch Ratings downgraded Kenya's sovereign rating from B+ to B in December 2022 leading to a similar downgrade of KCB Group and KCB Bank Kenya's ratings. The outlooks are stable.

Value created Value preserved Value eroded

Investor Information

The Group has a diverse base of investors and has been listed on the Nairobi Securities Exchange since 1988. It has since been cross listed on the Dar-es-Salaam Stock Exchange, Uganda Securities Exchange, and Rwanda Stock Exchange. As at the end of 2022, the Group had 193,615 individual and institutional shareholders.

We take pride in our solid fundamentals and our consistent dividend payout history. Our dividend policy provides for distribution of up to 50% of net earnings, underscoring the need to strike a balance between shareholder returns, and adequate retained earnings to support key strategic initiatives and business growth.

1. KCB Share Information

Description	2022	2021
Number of issued shares	3,213,462,815	3,213,462,815
Total number of authorized shares	4,500,000,000	4,500,000,000
Free float	80%	80%
End of period share price (KShs)	38.10	45.45
Capital (losses)/gains	(16.2%)	19.3%
Market capitalization (KShs billion)	122.4	146.1
Return on equity	23.0%	22.4%
Earnings per share (KShs)	12.71	10.61
Dividend per share (KShs)	2.00	3.00
Dividend yield	5.2%	6.6%
KCB Group shareholder's equity (KShs billion)	200.2	171.7
Total borrowings (KShs billion)	63.6	37.6
Debt to equity ratio	31.8%	21.9%

2. Shareholders per category

Local Institutional Investors **64.7%**

Local Individual Investors **26.4%**

Foreign Investors **8.9%**

3. Major shareholders (above 5%)

Shareholder	Number of shares	% shareholding
C.S. National Treasury of Kenya	635,001,947	19.76%
National Social Security Fund	312,711,292	9.73%
		As at 31 December 2022

4. 2023 Investor Calendar

Date[1]	Event
24 May 2023	Q1 2023 Financial Results
25 May 2023	Annual General Meeting
23 August 2023	H1 2023 Financial Results
22 November 2023	Q3 2023 Financial Results

Note: 1. Tentative dates.

Government and regulators

Who they are	What are their needs and expectations	Key metrics that we track
Government and regulatory entities in our markets. They include: • National and local governments in Kenya, Tanzania, South Sudan, Uganda, Rwanda, Burundi, and DRC. • Central Banks and tax authorities in the above countries. • Capital market regulators in Kenya, Uganda, Tanzania, and Rwanda	• Contribution to national development goals through financing, market creation and direct and indirect employment creation. • Responsible taxpayer in our markets. • Compliance with regulatory requirements.	• Compliance with regulatory ratios. • Timely reporting and filing of statutory and regulatory requirements. • Direct and indirect taxes paid. • Strong corporate governance

Quality of our relationship

Poor — **Excellent**

We assess the quality of our relationship with Government and regulators based on our contribution to national development goals and adherence to regulatory requirements.

We continuously build and maintain solid relationships with governments and regulators in the markets we operate in. We are cognizant of the important role we play in catalyzing economic activities in the region. In 2022, we delivered on this role via innovative products to channel financing to key segments and provision of robust and affordable payment solutions for businesses. In addition, the Group continues to uphold regulatory requirements and ensures total adherence to guidelines and regulations. We also ensure that we pay the appropriate taxes and fees in the markets where operate.

We contribute to efforts to tackle youth unemployment in the region through our Foundation

Income Tax Expense	
2021	**2022**
KShs. **13.6** Billion	KShs. **16.5** Billion

Value created, preserved or eroded in 2022

- Income tax expense grew by 21% to KShs. 16.5 billion in 2022 in line with increase in profits.
- We contributed to efforts to tackle youth unemployment in the region through our Foundation.
- We concluded successful engagements with regulators in Kenya and DRC which culminated in the approval of the TMB transaction.
- Litigation is a common occurrence in the banking industry due to the nature of the business. At year end, the Group entities had some unresolved legal and tax claims arising in the ordinary course of business. Based on the information available, the Directors believe the ultimate resolution of the unresolved tax claims and legal proceedings will not have a material effect on the Group's financial position.

We continuously build and maintain solid relationships with governments and regulators in the markets we operate in. We are cognizant of the important role we play in catalyzing economic activities in the region.
In 2022, we delivered on this role via innovative products to channel financing to key segments and provision of robust and affordable payment solutions for businesses.

Value created | Value preserved | Value eroded

Society

Who they are	What are their needs and expectations	Key metrics that we track
• Communities • Suppliers • Media • Natural environment	• Contribution towards addressing socio-economic challenges. • Responsible procurement. • Enhanced brand value and solid reputation. • Contribution towards attaining the Sustainable Development Goals (SDGs)	• Level of support to social initiatives through sponsorship and thought leadership. • Procurement spend for special interest groups and local suppliers. • Our impact on the environment • Contribution to SDGs

Quality of our relationship

Poor — Excellent

We assess the quality of our relationship based on our level of contribution to social initiatives, increase in procurement spend for special interest groups and local suppliers, and the progress achieved in contribution to the attainment of our adopted SDGs.

We believe that our success is hinged upon driving shared progress in our markets. We seek to be a force that drives economic progress and leads the transition to adoption of sustainable practices in the region. In addition, we play a major role in developing innovative products and driving partnerships that enable greater financial inclusion and access.

We also play a key role in sports sponsorships in the region. Over the years, we have invested over KShs. 1.2 billion towards supporting motorsports, KShs. 300 million in golf and KShs. 820 million in football, volleyball, rugby, and chess teams.

In 2022 we sponsored the Kenyan leg of the world rally championships (WRC) for the second year running. The WRC Safari Rally is an iconic event for Africa, and KCB's participation is significant.

The partnership with WRC allows the Bank to connect with rally enthusiasts and drivers and complete a roster of partners to enable the staging of this calendar event in Kenya. Since its return, WRC Safari Rally has refined the spirit of motorsport competition in Kenya and boosted the country's tourism and hospitality sectors.

Value created, preserved or eroded in 2022

- We took concerted steps towards leading the transition to net zero.
- Increased procurement spend for special interest groups and local suppliers.
- We enhanced our support to small businesses, affordable housing and financial inclusion
- Aggregate resource consumption reduced by 7% (2021: -17%). Our carbon footprint reduced by 5% in 2021: -11%). The deceleration was occasioned by full resumption of staff to their offices.
- KCB sustained its support for key sport disciplines in the region.
- We supported several community initiatives through our Foundation and Corporate donations.
- We made significant progress in accelerating our contribution to our adopted SDGs.

Value created | Value preserved | Value eroded

2022 Recap

2022 was a remarkable year for the Group. We expanded our footprint in the region, developed more innovative products and onboarded more transformative partnerships to offer superior customer value propositions and drive customer obsession across all our touchpoints. At the same time, we realigned our investment banking businesses and supported millions of customers to actualize their dreams.

These initiatives and more, helped propel the Group forward. This saw us onboard four million more customers in the year and serve our customers 723 million times, with 99% of these transactions being conducted on our digital platforms. All these while navigating through a challenging operating environment and successfully transitioning through the first leadership change at the Bank in a decade.

We thank all our stakeholders for making the year a memorable one for us. As we look forward to a phenomenal 2023, here is a recap of some of the key milestones we were able to achieve together in 2022.

January

- KCB Bank Kenya launched clean energy and LPG gas solutions to enable private and public learning institutions access financing to support them transition to clean energy.
- KCB Bank Kenya reverted to the usual business hours at its branches, adding an extra hour of service. The business hours had been temporarily reviewed in 2020 in light of the COVID-19 pandemic.

February

- KCB Bank Uganda launched a digital campaign and rolled out online account opening, smart ATMs and Kaycee, an AI powered chatbot.
- KCB Bank Kenya sponsored the 2022 Safari Golf Tour further deepening the support the Bank provides through sports sponsorship.

March

- KCB Foundation availed KShs. 5 million towards conservation efforts along the Tana River. Through a partnership, the Foundation targeted to link small holder farmers to financing through KCB to acquire 50 drip irrigation kits, 20 biodigesters and 500 water pans and storage facilities.
- KCB Bank Kenya rolled out accommodative LPO terms for contractors of school infrastructure projects needed to complete actualization of the competency-based curriculum (CBC) and to accommodate additional learners expected in secondary schools in 2023.

April

- KCB Bank Kenya implemented a reward drive for MSME, VOOMA, money transfer, agency banking, card business and premium banking customers and partners under its loyalty and retention programme.
- KCB Bank Kenya extended the waiver of merchant joining fees for a further period of six months, granting MSMEs an opportunity to sign up as merchants at no cost.

May

- KCB Group Board appointed Paul Russo as the Group Chief Executive Officer with effect from 25 May 2022 following the retirement of Joshua Oigara.
- NBK sponsored the inaugural Nairobi City Marathon to mark the launch of the newly constructed Nairobi Expressway.

June

- KCB Bank Kenya injected KShs. 100 million towards the 2022 World Rally Championship Safari Rally Kenya, becoming the official banking partner for the championship.
- KCB Bank Kenya partnered with National Council for Persons with Disabilities to enable their members access funding for purchase orders issued by government institutions.

July

- Global Finance magazine named KCB Bank as the 'Best Bank in Sustainable Finance in Kenya 2022' in recognition of our efforts in creating a more sustainable business enterprise through deliberate socio-economic interventions.

August

- KCB Group Plc entered into a definitive agreement with shareholders of Trust Merchant Bank, SA (TMB) to acquire a majority stake in the Democratic Republic of the Congo (DRC) based lender subject to requisite approvals.
- KCB Bank Kenya unveiled a loyalty rewards campaign to appreciate its customers, merchants, and agents.

September

- KCB Group shareholders approved the proposed acquisition of TMB during a virtual extraordinary general meeting
- KCB Bank Tanzania attained tier I status with total assets crossing TShs. 1 trillion

October

- KCB launched the Female Led and Made Enterprises (FLME) proposition aiming to lend KShs. 250 billion in five years to women entrepreneurs
- KCB partnered with an e-mobility company to finance the purchase of electric buses by public transport operators in a bid to lead the transition to clean energy
- KCB Bank Uganda celebrated 15 years of operations through countrywide engagement with customers which positioned the brand to be closer and connected to its people

November

- NBK launched ElimuKonnect, an offering that addresses the challenges in the enablement of the education sector in Kenya with a view to enhance capacity building, financial inclusion, technology improvement, innovation, and excellence in learning.
- KCB Tanzania launched the first public Islamic bond in Tanzania dubbed Fursa Sukuk. The paper raised TShs. 11 billion, an oversubscription of 10%. It carries a profit rate of 8.75% per annum and a tenor of three years.
- KCB Bank Uganda launched a revamped mobile banking platform with added functionalities including utility payments helping to deepen usage of digital channels.

December

- KCB Group unveiled a new brand purpose, For People. For Better. backed by a set of values of being connected, courageous, and closer.
- KCB Group Plc completed the acquisition of an 85% stake in TMB following the receipt of all regulatory approvals.
- KCB partnered with an education technology firm to enable customers and schools access coding lessons at discounted rates and pay in instalments.
- NBK rolled out a payments solution system to collect Kenya Ports Authority's Ferry payments

Our goal is to be a

connected team with consistent delivery

Delivering on our Strategy

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Group Chairman's Statement

Unlocking new frontiers

Dear fellow shareholders,

It gives me great pleasure to address you on the strides our Company made in 2022 on behalf of the Group Board, whom you have entrusted as custodians of your investments. Since my maiden annual letter to you five years ago, I have always been delighted by this opportunity to communicate with you directly, as we gear up towards our engagements at the Annual General Meeting (AGM).

I am glad to inform you that the Group delivered impressive results in 2022, across both financial and non-financial spheres, while continuing to drive the creation of shared value for our diverse universe of stakeholders. I thank you for providing the Company with the capital and valued feedback to achieve this. We have enumerated this performance in detail, in the various disclosures contained within this report but allow me to highlight a few key areas of our business that impressed me the most in 2022.

Operating environment

The past year was largely a phenomenal one for us. Although it was difficult to predict how the year would turn out, considering the prevailing uncertainties in the global economy, the Group managed to remain resilient. We appreciate that we are living in a dynamic and unpredictable world with a complex set of variables that are constantly making it difficult to visualize stability or predict the future. However, we are better positioned to weather through these challenges due to our diversified business model and solid capital base.

At the same time, there are new opportunities for growth and success. It is the reason why in today's globally interconnected world, we must continually endeavor to create sustainable long-term value for all our stakeholders, from customers to employees to regulators and to you, our shareholders amongst others.

It is refreshing to note that as a result of the commitment of our staff, KCB Group continues to grow in leaps and bounds. KCB is now on the threshold of a more ambitious leap that involves anticipating customer needs and innovating ways of addressing them. This will be aided by an enabling brand purpose, For People, For Better. We expect that this new purpose, backed by a set of values of being connected, courageous, and closer, will propel our business forward.

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Financial performance

Through your shareholding at KCB Group Plc, you own eight banking businesses across seven countries in the region. You also own a diverse blend of non-banking businesses in Kenya, to maximize the synergy that exists within the financial ecosystem.

On a consolidated basis, the Group posted an impressive performance. Our profits net of all expenses, provisions and taxes grew by 20% to KShs 40.8 billion in 2022. Consequently, this raised our return on equity by 60 basis points to 23.0%, placing it among the highest at the Nairobi Securities Exchange.

This performance enabled the Group to continue with our consistent dividend payout history even as we invested in our expansion drive across the region. We paid out KShs 3.2 billion in interim dividend following our quarter three results. We have further recommended an additional KShs 3.2 billion as a final dividend for 2022 for your consideration at the annual general meeting. This will bring the total dividend paid for the year to KShs 6.4 billion.

Becoming the undisputed leader

All our regional businesses all marked important milestones in the year. Our business in Tanzania attained tier I status in the market with an asset base of more than TShs. 1 trillion. KCB Burundi marked a decade of enabling progress in the country while Uganda celebrated its 15-year anniversary. In Kenya, we reorganized our investment banking and asset management businesses to better position them to capitalize on the available opportunities.

As I reiterated in my inaugural annual letter to you, each subsidiary operates in a unique environment. I believed then as I do now, that fast growing markets such as Rwanda offer immense opportunities to earn higher returns on investment. It is against this backdrop that the Group acquired Banque Populaire du Rwanda and merged it with KCB Bank Rwanda to form BPR Bank Rwanda Plc. This merger catapulted our business to become the second largest bank in Rwanda. This larger market share has enabled the Bank to accelerate its contribution to the Group, making it the second most profitable subsidiary after KCB Bank Kenya.

Our return on equity is among the highest at the Nairobi Securities Exchange	2021	2022
	22.4%	23.0%

The Group successfully completed the acquisition of Trust Merchant Bank (TMB), one of the leading financial services companies in the Democratic Republic of the Congo (DRC). KCB acquired 85% of the shares of TMB with the existing shareholders continuing to hold the balance for a period of not less than two years, after which KCB may acquire their shares. Retaining the existing shareholders in the business post-acquisition is advantageous to KCB as it provides management and business continuity to TMB's business and support for KCB as it enters the DRC market.

Both acquisitions were fully on a cash basis thus did not result in any change in the shareholding of the Group. In the long term, we anticipate increased returns on your shareholding as we consolidate these businesses into the Group.

Governance and leadership

In 2022, several Board Directors concluded their terms and subsequently exited the various boards. John Nyerere and Georgina Malombe retired from the Group Board. I would like to register my appreciation to John, Georgina, and the retired subsidiary Boards directors for their service to our Group. I am pleased to inform you that the Board nominated Ms. Anuja Pandit to fill a casual vacancy in the Group Board during the year. This nomination will be submitted to you, to deliberate upon at our upcoming AGM. Anuja brings onboard a wealth of experience in financial services and strategic management which will be vital in further reinforcing the skillset of our Board.

On the senior management front, our former Group Chief Executive Officer (GCEO), Joshua Oigara retired during the year. I would like to thank Joshua for his immense contribution to the growth of our Company over the course of his illustrious tenure at the Group.

After a competitively run selection process, the Board appointed Paul Russo as our new GCEO. Paul has solid experience in banking, strategy, people management, and a sharp business acumen. He has consistently been a great leader of outstanding performance and I am pleased to report that he is already doing an excellent job. I am convinced that he will take the Group to the next level in its growth ambitions.

> We continued with our consistent dividend payout history even as we invested in our regional expansion drive.

> We are bullish about 2023 and are gearing up to maximize on all the opportunities that are available in our various markets. We have in place a robust strategy that enables us to prudently deploy our capital and resources across the region to ensure superior returns from our investments.

Building a sustainable business and deepening citizenship agenda

We have continued to embed sustainable practices in all our business operations and strategy. In 2022, we reviewed the relevant Board and management committees' terms of reference to incorporate climate risk to offer the required oversight. The business is well aligned to drive green finance and accelerate our net zero ambitions while also supporting our citizenship agenda to deliver meaningful change in our communities. During the year, we signed up to the African Business Leaders' Coalition, underpinning our commitment to accelerate and facilitate green finance.

> In 2022, we reviewed the relevant Board and management committees' terms of reference to incorporate climate risk to offer the required oversight.

On social impact, the Group continues to spearhead and mobilize support for various citizen-driven engagements across the region. Key to note is our support to the governments in various economic and social initiatives. In November, KCB Bank Kenya contributed KShs. 130 million to support the country's drought response initiative, providing food and essentials to thousands of households. The KCB Foundation in partnership with the National Drought Management Authority and county governments, made interventions towards augmenting government efforts in cushioning households hit hard by the ravaging drought requiring urgent supply of food and water.

In 2022, the Foundation's flagship program, 2jiajiri, facilitated training of 3,529 beneficiaries in various sectors enabling them to acquire market-oriented skills leading to the creation of 4,386 jobs. Under the Mifugo ni mali program, we supported 70 farmer producer organizations with a membership of over 1,200 livestock producers on various capacity building areas including business planning, livestock insurance, credit preparedness, and pasture establishment.

The Foundation also rehabilitated four market centers, formed linkages with product off takers, availed value addition equipment and business-to-business trade fairs enabling the farmers to earn a cumulative KShs. 332 million in sales during the year. The scholarship program also continued with its scale up reaching 1,326 high school students beneficiaries and 217 tertiary scholars from disadvantaged backgrounds.

In Burundi, the Bank launched KCB Burundi Foundation, Itezi Imbere, which means Empower Yourself. Looking further, I am glad that we have similar initiatives running in Tanzania, South Sudan, Uganda, and Rwanda, enabling us to build a Bank that is responsive to community needs.

Looking ahead

We are bullish about 2023 and are gearing up to maximize on all the opportunities that are available in our various markets. We have in place a robust strategy that enables us to prudently deploy our capital and resources across the region to ensure superior returns from our investments. On behalf of the Board, I would like to express my confidence in the relevance of our strategic goals and in the ability of the Executive Committee, along with all the teams, to implement this strategy in the coming years.

I acknowledge and thank all our employees across the region for their dedication and zeal that has continued to deliver impressive results for the Group. Our staff are a key pillar upon which we deliver on our strategy, and we shall continue to ensure that we provide a competitive employee value proportion to enable us to sustain our growth momentum.

In conclusion, as I mentioned at the commencement of this address, this is my fifth annual letter to you. Therefore, in full compliance with our board charter and corporate governance policy, this will be my last AGM as your chairman as my five-year term is coming to an end and I wish to thank you for giving me this opportunity to serve. We have a strong, diverse, and competent board that will continue to drive the business to achieve and sustain its strategic objectives and a seamless transition to ensure continuity has already commenced. I would like to thank you all, shareholders, my fellow board colleagues, our employees, regulators, and various other partners for the transformative collaboration we have had that has led to the various successes our Group has achieved over the last five years.

Andrew Wambari Kairu
Group Chairman

Kauli ya Mwenyekiti

Kufungua mipaka mipya

Wanahisa wenzangu,

Inanipa furaha kubwa kuwahutubia kuhusu hatua ambazo Kampuni yetu ilipiga mwaka wa 2022 kwa niaba ya Bodi ya Kampuni, ambayo mumewakabidhi mamlaka ya kusimamia uwekezaji wenu. Tangu niwasilishe kwenu barua yangu ya kwanza ya kila mwaka, miaka mitano iliyopita, siku zote nimefurahishwa na fursa hii ya kuwasiliana nanyi moja kwa moja, tunapojiandaa kuwa na mashirikiano yetu katika Mkutano Mkuu wa Mwaka (AGM).

Nina furaha kuwafahamisha kwamba Kampuni ilitoa matokeo ya kupendeza mwaka wa 2022, katika nyanja zote za kifedha na zisizo za kifedha, huku tukiendelea kuendeleza uundaji wa thamani ya pamoja kwa washikadau wetu wote. Ninawashukuru kwa kuipa Kampuni mtaji na maoni yenye thamani ili kufanikisha Biashara yetu. Tumeeleza utendaji huu kwa kina, katika vipengele mbalimbali vilivyomo ndani ya ripoti hii lakini niruhusu niangazie mambo ya muhimu yaliyonifurahisha pakubwa kuhusu biashara yetu, katika mwaka wa 2022.

Mazingira ya uendeshaji

Mwaka uliopita kwa kiasi kikubwa ulikuwa mzuri kwetu. Ingawa ilikuwa vigumu kutabiri jinsi mwaka utakavyokuwa, kwa kuzingatia hali ya kutokuwa na uhakika iliyopo katika uchumi wa dunia, Kampuni liliweza kubaki imara. Tunaelewa kwamba tunaishi katika ulimwengu unaobadilika na usiotabirika, wenye seti changamano ya vigezo vinavyofanya iwe vigumu kuibua uthabiti au kutabiri siku zijazo. Hata hivyo, tuko katika nafasi nzuri ya kukabiliana na changamoto hizi kutokana na mtindo wetu wa biashara mseto na msingi thabiti wa mtaji.

Wakati huo huo, kuna fursa mpya za ukuaji na mafanikio. Ndiyo sababu katika ulimwengu wa kisasa uliounganishwa kimataifa, lazima tujitahidi daima kuunda thamani endelevu ya muda mrefu kwa washikadau wetu wote, kutoka kwa wateja hadi wafanyikazi, wadhibiti na kwenu wanahisa wetu miongoni mwa wengine.

Inasisimua kutambua kwamba kutokana na kujitolea kwa wafanyakazi wetu, KCB Group inaendelea kukua kwa kasi na mipaka. KCB sasa iko kwenye mkondo wa kupiga hatua kubwa zaidi ambayo inahusisha kutazamia mahitaji ya wateja na jinsi ya kuyashughulikia. Hii itasaidiwa na madhumuni ya kuwezesha dhamira hii, Kwa ajili ya Watu, Kwa Ubora Zaidi. Tunatarajia kwamba lengo hili jipya, likisukumwa kwa kuunganisha seti ya maadili, ujasiri, na ukaribu zaidi, litasongeza mbele biashara yetu.

> "Inafurahisha kutambua kwamba kutokana na kujitolea kwa wafanyakazi wetu, KCB inaendelea kukua kwa kasi na mipaka.

> Nina furaha kuwafahamisha kwamba Kampuni ilitoa matokeo ya kupendeza mwaka wa 2022, katika nyanja zote za kifedha na zisizo za kifedha, huku tukiendelea kuendeleza uundaji wa thamani ya pamoja kwa washikadau wetu waliochanganyika.

Utendaji wa kifedha

Kupitia umiliki wako wa hisa katika kundi la KCB, unamiliki biashara nane za benki katika nchi saba za eneo hili. Pia unamiliki mseto tofauti za biashara zisizo za benki nchini Kenya, ili kuongeza ushirikiano uliyopo katika mfumo ikolojia wa kifedha.

Kwa ujumla Kundi limeandikisha matokeo ya kuvutia. Faida yetu ya jumla ya gharama zote, masharti na kodi iliongezeka kwa asilimia 20 hadi shilingi bilioni 40.8 mwaka wa 2022. Kwa hivyo, hii iliinua faida yetu ya usawa, kwa pointi 60 hadi asilimia 23.0, na kuiweka kati ya juu zaidi katika soko kuu la hisa la Nairobi almaarufu Nairobi Securities Exchange.

Utendaji huu uliwezesha Kampuni kuendelea na historia yetu thabiti ya malipo ya mgao hata tulipowekeza katika harakati zetu za upanuzi katika eneo lote. Tulilipa shilingi bilioni 3.2 katika mgao wa muda kufuatia matokeo yetu ya robo tatu ya mwaka. Tumependekeza zaidi ya shilingi bilioni 3.2 kama mgao wa mwisho wa 2022 ijadiliwe katika mkutano mkuu wa kila mwaka. Hii italeta jumla ya gawio lililolipwa kwa mwaka hadi shilingi bilioni 6.4.

Kuwa kiongozi mkamilifu

Kila moja ya biashara zetu za kikanda zilionyesha kupiga hatua muhimu katika mwaka. Biashara yetu nchini Tanzania ilifikia hadhi ya kwanza sokoni ikiwa na msingi wa mali ya zaidi ya TShs. trilioni 1. KCB Burundi iliadhimisha muongo mmoja wa kuwezesha maendeleo nchini humo, huku Uganda ikiadhimisha miaka 15. Nchini Kenya, tulipanga upya biashara zetu za benki za uwekezaji na usimamizi wa mali, ili kuziweka katika nafasi nzuri ya kufaidika na fursa zilizopo.

Kama nilivyorudia katika barua yangu ya uzinduzi ya kila mwaka kwenu, kila kampuni tanzu inafanya kazi katika mazingira ya kipekee. Sawia na hapo awali naendelea kuamini kwamba masoko yanayokua kwa kasi kama vile Rwanda, yanatoa fursa kubwa za kupata faida kubwa kwenye uwekezaji. Ni kutokana na hali hii ambapo Kampuni lilinunua Banque Populaire du Rwanda na kuiunganisha na Benki ya KCB ya Rwanda na kuunda BPR Bank Rwanda Plc. Muunganiko huu ulichangia biashara yetu kuwa benki ya pili kwa ukubwa nchini Rwanda. Sehemu hii kubwa ya soko imewezesha Benki kuharakisha mchango wake kwa Kampuni, na kuifanya kuwa kampuni tanzu ya pili kwa faida kubwa baada ya Benki ya KCB Kenya.

Pili, Kampuni lilifanikiwa kukamilisha ununuzi wa Trust Merchant Bank (TMB), mojawapo ya kampuni zinazoongoza kwa huduma za kifedha katika Jamhuri ya Kidemokrasia ya Kongo (DRC). KCB ilipata asilimia 85 ya hisa za TMB, huku wanahisa waliopo wakiendelea kushikilia salio kwa muda usiopungua miaka miwili, ambapo KCB wanaweza kupata hisa zao. Kudumisha wanahisa waliopo baada ya kununua biashara hiyo ni faida kwa KCB, kwani hutoa usimamizi na mwendelezo wa biashara kwa biashara ya TMB na usaidizi kwa KCB inapoingia katika soko la DRC.

Manunuzi yote mawili yalikamilishwa kwa msingi wa pesa taslimu hivyo hayakusababisha mabadiliko yoyote katika umiliki ya hisa wa Kikundi. Ndani ya miaka kadhaa, tunatarajia ongezeko la faida kwenye umiliki wenu tunapounganisha biashara hizi kwenye Kikundi.

Utawala na uongozi

Katika mwaka wa 2022, wakurugenzi kadhaa wa halmashauri walihitimisha kandarasi zao na hivyo waliondoka kwenye bodi mbalimbali walizokuwemo. John Nyerere na Georgina Malombe walistaafu kutoka Bodi kuu ya Kampuni. Ningependa kutoa shukrani zangu za dhati kwa John, Georgina, na wakurugenzi wa Bodi tanzu waliostaafu kwa huduma yao kwa Kundi letu. Ninayo furaha kukufahamisha kwamba Bodi ilimteua Bi. Anuja Pandit kujaza nafasi iliyoachwa wazi katika Bodi kuu ya Kampuni katika mwaka huo. Uteuzi huu utawasilishwa kwenu, ili ujadiliwe kwenye Mkutano Mkuu wa Mwaka (AGM) unaokuja. Anuja analeta uzoefu mwingi katika usimamizi wa kimkakati na huduma za kifedha, ambayo itakuwa muhimu katika kuimarisha zaidi ujuzi wa Bodi yetu.

Kwa upande wa wasimamizi wakuu, aliyekuwa Afisa Mkuu Mtendaji wa Kundi letu (GCEO), Joshua Oigara alistaafu mwaka huo. Ningependa kumshukuru Joshua kwa mchango wake mkubwa katika ukuaji wa Kampuni yetu katika kipindi cha umiliki wake uliotukuka katika Kundi.

Baada ya mchakato wa uteuzi ulioendeshwa kwa ushindani, Bodi ilimteua Paul Russo kama Afisa Mkuu Mtendaji (GCEO) mpya. Paul ana uzoefu thabiti katika benki, mkakati, usimamizi wa watu, na ujuzi mkali wa biashara. Amekuwa kiongozi mzuri wa utendaji bora na ninafurahi kuripoti kwamba tayari anafanya kazi nzuri. Nina hakika kwamba atalipeleka Kundi katika ngazi ya juu zaidi katika matarajio ya ukuaji.

> Tumeimarika kwa kujipiga kifua katika mwaka wa 2023 na tunajitayarisha kuongeza fursa zote zinazopatikana katika masoko yetu mbalimbali. Tumeweka mkakati thabiti ambao unatuwezesha kusambaza mitaji na rasilimali zetu kwa uangalifu katika eneo lote, ili kuhakikisha mapato ya juu kutoka kwa uwekezaji wetu.

Kujenga biashara endelevu na kukuza ajenda ya uraia

Tumeendelea kuweka mazoea endelevu katika shughuli na mikakati yetu yote ya biashara. Katika mwaka wa 2022, tulibatilisha sheria na masharti ya Bodi na kamati za usimamizi ili kujumuisha hatari ya hali ya hewa ili kutoa uangalizi unaohitajika. Biashara hii imejikita vyema katika kuendeleza ufadhili wa mazingira na kuharakisha matarajio yetu halisi huku pia ikisaidia ajenda yetu ya uraia kuleta mabadiliko ya maana katika jumuiya zetu. Katika mwaka huo, tulijiandikisha kwa Muungano wa Viongozi wa Biashara barani Afrika, na kusisitiza ahadi yetu ya kuharakisha na kuwezesha ufadhili wa mazingira.

Kuhusu athari za kijamii, Kundi kinaendelea kuongoza na kuhamasisha uungwaji mkono kwa shughuli mbalimbali zinazoendeshwa na raia kote, kwenye kanda yetu. Jambo la kuzingatia ni msaada wetu kwa serikali katika mipango mbalimbali ya kiuchumi na kijamii. Mwezi Novemba, Benki ya KCB Kenya ilichangia shilingi milioni 130 kusaidia mpango wa kukabiliana na ukame nchini, kutoa chakula na mahitaji muhimu kwa maelfu ya watu. Wakfu wa KCB kwa ushirikiano na Mamlaka ya Kitaifa ya Kukabiliana na Ukame na serikali za kaunti, walifanya afua katika kuongeza juhudi za serikali katika kunusuru familia zilizoathirika pakubwa na ukame unaohitaji ugavi wa haraka wa chakula na maji.

Katika mwaka wa 2022, mpangilio ya wakfu, 2jiajiri, iliwezesha mafunzo ya wanufaika 3,529 katika sekta mbalimbali ili kuwawezesha kupata ujuzi unaozingatia soko na kusababisha kuundwa kwa ajira 4,386. Chini ya mpango wa mifugo ni mali, tulisaidia mashirika 70 ya wakulima wenye uanachama zaidi ya wafugaji 1,200 katika maeneo mbalimbali ya kuwajengea uwezo, ikiwa ni pamoja na kupanga biashara, bima ya mifugo, maandalizi ya mikopo na uanzishaji wa malisho. Wakfu pia ilikarabati vituo vinne vya soko, iliunda uhusiano na watoa bidhaa, ilitoa vifaa vya kuongeza thamani na maonyesho ya biashara ili kuwezesha wakulima kupata jumla ya shilingi milioni 332 katika mauzo ndani ya mwaka huo. Mpango wa ufadhili wa masomo pia uliendelea na kiwango chake kufikia wanafunzi 1,326 walionufaika na wasomi wa elimu ya juu 217 kutoka asili duni.

Nchini Burundi, Benki ilizindua Wakfu wa KCB Burundi, Itezi Imbere, ambayo inamaanisha Jiwezeshe. Nikiangalia mbele, ninafurahi kwamba tuna mipango kama hiyo inayoendeshwa nchini Tanzania, Sudan Kusini, Uganda, na Rwanda, inayotuwezesha kujenga Benki ambayo inakidhi mahitaji ya jamii.

Kuangalia mbele

Tumeimarika kwa kujipiga kifua katika mwaka wa 2023 na tunajitayarisha kuongeza fursa zote zinazopatikana katika masoko yetu mbalimbali. Tumeweka mkakati thabiti ambao unatuwezesha kusambaza mitaji na rasilimali zetu kwa uangalifu katika eneo lote, ili kuhakikisha mapato ya juu kutoka kwa uwekezaji wetu. Kwa niaba ya Bodi, ningependa kueleza imani yangu juu ya umuhimu wa malengo yetu ya kimkakati na uwezo wa Kamati ya Utendaji, pamoja na timu zote, kutekeleza mkakati huu katika miaka ijayo.

Ninawatambua na kuwashukuru wafanyakazi wetu wote katika eneo lote, kwa kujitolea kwao na bidii ambayo imeendelea kuleta matokeo ya kuvutia kwa Kundi. Wafanyikazi wetu ni nguzo kuu ambayo tunatekeleza mkakati wetu, na tutaendelea kuhakikisha kwamba tunatoa uwiano wa thamani kwa wafanyakazi, ili kutuwezesha kuendeleza kasi yetu ya ukuaji.

Kwa kumalizia, kama nilivyoeleza mwanzoni mwa hotuba hii, hii ni barua yangu ya tano ya mwaka kwenu. Kwa hiyo, kwa kuzingatia kikamilifu katiba yetu ya bodi na sera ya utawala bora, hii itakuwa AGM yangu ya mwisho kama mwenyekiti wenu, kwani muda wangu wa miaka mitano unamalizika na ningependa kuwashukuru kwa kunipa nafasi hii ya kuhudumu. Tuna bodi imara, iliyochanganyika kwa mseto wa maarifa na yenye uwezo, ambayo itaendelea kuendesha biashara, kufikia na kudumisha malengo yake ya kimkakati na mpito mtulivu ili kuhakikisha safari ya uendelezi imeanza. Napenda kuwashukuru nyie wote, wanahisa, wafanyakazi wenzangu wa bodi, wafanyakazi wetu, wadhibiti, na washirika wengine mbalimbali kwa ushirikiano wa kimabadiliko ambao tumekuwa nao ambao umesababisha mafanikio mbalimbali ambayo Kikundi chetu kimepata katika kipindi cha miaka mitano iliyopita.

Asanteni

Andrew Wambari Kairu
Mwenyekiti

Board of Directors

Andrew W. Kairu
Group Chairman

Geoffrey Malombe
Alternate to C.S. Treasury

Lawrence Njiru
Director

Ahmed Mahmoud
Director

Dr. Obuya Bagaka
Director

Alice Kirenge
Director

Anuja Pandit
Director

Dr. Joseph Kinyua, EGH
Director

Paul Russo, EBS
Group Chief Executive Officer

Lawrence Kimathi
Group Finance Director

Bonnie Okumu
Group Company Secretary

Operating Environment

Board of Directors KCB Bank Kenya

Lawrence Njiru
Chairman

Geoffrey Malombe
Alternate to the C.S. Treasury

Simeon Rono

Njeri Onyango

Caroline Okongo

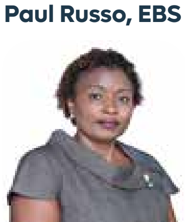
Joseph Muigai

Eunice Nyala

Kendi Ntwiga

Paul Russo, EBS

Annastacia Kimtai
Managing Director



Anne Nyongesa
Company Secretary

Kenya

Real Gross Domestic Product (GDP) expanded by 4.8% in 2022 compared to a revised growth of 7.6% in 2021. The growth was spread across all sectors of the economy but was more pronounced in service-oriented activities. Some of the key sectors that supported growth were financial & Insurance, information & communication and transportation & storage which expanded by 12.8%, 9.9% and 5.6% respectively. Agriculture sector contracted by 1.6% in 2022 compared to a contraction of 0.4% in 2021. This was attributed to unfavorable weather conditions witnessed during the period, as well as increased costs of agricultural inputs such as fertilizer. Despite slowing down markedly in 2022 in volume terms, agriculture remained the dominant sector, accounting for 21.2% of the overall GDP. Industry-related activities accounted for 17.7%, while service activities accounted for 61.1%. Nominal GDP increased from KShs. 12.0 trillion in 2021 to KShs. 13.4 trillion in 2022.

In April and November 2022, the International Monetary Fund (IMF) and the Kenyan authorities reached a staff-level agreement on economic policies to conclude the third and fourth reviews of the 38-month Extended Fund Facility (EFF) and Extended Credit Facility (ECF) program that was approved in April 2021 with a total amount of USD 2.34 billion. Kenya accessed USD 244 million and USD 433 million respectively, bringing the total IMF financial support under these arrangements to USD 1.66 billion. The program has strengthened Kenya's ability to navigate through the recent multiple shocks including the COVID-19 Pandemic, the impact of the war in Ukraine, the tightening global financial market conditions and the continuing drought affecting food and energy prices.

The country held peaceful general elections in August 2022 with the new government's economic recovery agenda aimed at promoting inclusive growth by seeking to increase investments in five sectors — agriculture; micro, small and medium enterprises; housing and settlement; healthcare; and digital superhighway and creative industry — envisaged to have the biggest impact on the economy as well as on household welfare. During the period, the new government commenced withdrawal of the fuel subsidies to ease pressure on government budgeting and planning. The government however continued to provide subsidies on agricultural inputs, especially seeds and fertilizers to support the production side of the economy with a view of increasing agricultural food supply to support lower food prices.

Overall inflation in 2022 increased to average 7.6% compared to 6.1% in 2021 driven by increase in food and energy prices, despite the moderation in core inflation. Housing and energy inflation increased from 4.8% in 2021 to 6.0% in 2022 as international oil prices went up, coupled with the depreciation of the shilling. Food inflation increased from 8.6% in 2021 to 13.1% in 2022 partly due to the drought conditions during the year that led to increase in food prices.

Currency exchange rate to the US dollar averaged KShs. 117.8 in 2022 compared to KShs. 109.6 in 2021. The shilling depreciated during the year trading at KShs. 123.37 to the US dollar at close of the year, a depreciation of 9.05%. During the year, the shilling appreciated against Sterling Pound by 2.54% and depreciated against the Euro by 2.48%. Diaspora remittances grew by 8.3% to USD 4.03 billion in 2022, up from USD 3.72 billion in the prior year. The bulk of these remittances came from the United States.

Our Footprint - KCB K	
Branches	**205**
ATMs	**423**
Agents	**16,364**
Merchant outlets	**5,791**
Staff	**5,458**

Our performance KCB K	2022 KShs million	2021 KShs million
Total income	92,750	82,975
Operating expense	(35,279)	(32,580)
PAT	34,736	28,588
Total assets	**971,353**	**826,395**

KCB Bank Kenya and NBK rolled out innovative products to grow share of wallet and attract new to bank customers.

The current account deficit is estimated at 4.9% of GDP in 2022 compared to 5.4% in 2021 and is projected to be at 5.4% in 2023. The decrease in 2022 was due to lower increase in imports compared to the growth in exports. Imports of goods grew by 5.8% in 2022 compared to a growth of 25.4% in 2021, reflecting lower imports of infrastructure related equipment due to completed projects. Exports remained strong, growing by 10.9% in 2022. Receipts from tea and manufactured goods increased by 16.1% and 22.1% respectively during the period. The increase in receipts from tea exports reflects improved prices attributed to demand from traditional markets.

The Central Bank of Kenya (CBK) usable foreign exchange reserves remained adequate at USD 7,439 million (4.17 months of import cover) as at end of December 2022. This meets the CBK's statutory requirement to endeavor to maintain at least 4 months of import cover. This cover has however dropped slightly in 2023 amounting to 3.62 months of cover as at April 27.

The Central Bank Rate (CBR) averaged 7.7% in 2022 compared to an average of 7.0% in 2021. During the year, the monetary policy committee increased the CBR by 50 basis points in May, 75 basis points in September and a further 50 basis points in November raising the rate to 8.75% at the end of 2022. This was in light of sustained inflationary pressures, the elevated global risks and their potential impact on the domestic economy justifying the need for further tightening of the monetary policy in order to anchor inflation expectations.

During the year, the yields on the government bills were on an upward trajectory with the yields on the 91-day, 182-day and 364-day T-bills increasing to 8.2%, 9.0% and 9.9% in 2022, from 7.0%, 7.6% and 8.6% in 2021, respectively.

Both the short term and long-term government papers were undersubscribed, with the average subscription rate for T-bills and T-bonds coming in at 94.9% and 98.8%.

Growth in private sector credit increased to 12.5% in 2022 compared to 8.6% in 2021. Strong credit growth was observed in transport and communication, manufacturing, trade, business services and consumer durables. The number of loan applications and approvals increased, reflecting improved demand with increased economic activities.

Total public debt amounted to KShs. 9.15 trillion as at December 2022, a growth of 11.4% from KShs. 8.21 trillion in December 2021. This was driven by 10.9% growth in domestic debt, while external debt grew 11.9%. At this level, debt stock is 91.5% of the KShs. 10.0 trillion debt ceiling and the debt-to-GDP ratio is at 69.8%. External debts accounted for 51.1% of the total debt while domestic debt was at 48.9%. At the end of the year, T-bills accounted for 15.0% of the total domestic debt while T-Bonds accounted for 83.0%. Banking institutions held the majority of the government domestic debt at 46.8%, while pension funds held 33.3%.

KCB Bank Kenya posted an 18% growth in total assets in 2022 driven by increase in lending activities. Growth in interest income and service income on the back of the resurgence in economic activities also raised total revenues to KShs. 93 billion and KShs. 11 billion in KCB Bank Kenya and NBK respectively. In addition, the two banking businesses rolled out innovative products targeting MSMEs, schools, housing and consumer segments to cross sell and attract new to bank customers. The two Banks have the largest combined market share[1] in Kenya at 16.1%, split into 13.8% for KCB Bank Kenya and 2.3% for NBK.

Our Footprint - NBK	
Branches	**92**
ATMs	**99**
Agents	**510**
Merchant outlets	**-**
Staff	**1,698**

Our performance NBK	2022 KShs million	2021 KShs million
Total income	11,363	10,111
Operating expense	(8,513)	(7,710)
PAT	718	1,073
Total assets	**142,769**	**146,455**

1 As per CBK Bank Supervision Annual Report 2021.

Board of Directors NBK

Dr. Obuya Bagaka
Chairman

Jones Nzomo

Gen. (Rtd) Dr. J. Karangi

Lina Githuka

Laban Omangi

Paul Russo, EBS

George Odhiambo
Managing Director

Samuel Mundia
Company Secretary

Tanzania

Board of Directors

John Ulanga
Chairman

Fatuma Chilo

Alex Nguluma

Santina Benson

Anuja Pandit

Fred Otieno

Cosmas Kimario
Managing Director

Damas Mwagange
Ag. Company Secretary

KCB Bank Tanzania attained tier I status as assets surged by 50% to cross TShs. 1 trillion on the back of increased lending to customers.

Tanzania's economic recovery from the impact of the pandemic continued despite headwinds from the global economic environment. While some sectors, including mining, tourism, and other services, showed signs of recovery in 2022, growth for the year is estimated to have reached 5.2%, reflecting the impact of global economic conditions, and the effects of a shortfall in rainfall on electricity production and agriculture. Real GDP increased by 5.2% in Q3 2022 compared to a 5.5% growth in Q3 2021. Economic activities that significantly contributed to the growth include transport and storage by 14.2%, agriculture 12.4%, mining and quarrying 9.8%, construction and financial and insurance services 8.3% each and manufacturing 7.9%. Manufacturing expanded by 4.5% in Q3 2022, up from 3.9% in Q3 in 2021. The growth rate was attributed to a general increase in the production of industrial goods. Information and communication grew by 13.7% in Q3 2022, up from 8.3% in the corresponding quarter in 2021. The overall financial and insurance activities increased by 12.0% in the third quarter of 2022, up from 4.8% recorded in the similar quarter in 2021.

The IMF Board in August 2022 approved USD 1,046.4 million Extended Credit Facility arrangement for Tanzania, with about USD 151.7 million to be disbursed immediately. The 40-month financing package was aimed at supporting economic recovery and addressing the spillovers from Russia-Ukraine conflict. The facility is also expected to help preserve macroeconomic stability, and support structural reforms toward sustainable and inclusive growth, drawing on the government's priorities.

Overall Inflation in December 2022 increased to 4.8% compared to 4.2% recorded in December 2021. Food and non-alcoholic beverages inflation rose to 9.7% in December 2022. The annual inflation averaged 4.3% in 2022 compared to 3.7% in 2021. Inflation remained well within the range set in the third Tanzania five-year development plan (FYDP III) between 3.0% and 5.0% over the medium term.

The Tanzanian Shilling (TShs) depreciated by 0.02% in December 2022 to average 2,320.20 to the US dollar compared to an average of 2,319.90 in November 2022. During the year, the shilling depreciated by 0.49% to close at TShs 2,320.40 to the US dollar. The external sector remained sustainable, albeit weakened by the global shocks, which led to widening of the current account deficit. Despite the widening of current account deficit, foreign reserves remained adequate at about USD 5.2 billion at the end of December 2022, sufficient to cover 4.7 months of imports. The import cover was in line with the country benchmark and EAC convergence criteria of at least 4 and 4.5 months, respectively.

The banking sector was adequately capitalized, liquid, profitable and remained resilient to shocks. Assets and deposits of banks continued to increase, supported by improving business environment, as well as adoption of digital financial services and agency banking. The ratio of non-performing loans continued to decline reaching 5.8% in December 2022, down from 8.5% in the corresponding period in 2021. The 91-day treasury bill averaged 2.79% in 2022 down from 2.88% in 2021. Bank of Tanzania maintained less accommodative monetary policy stance throughout the year holding CBR at 5.0%.

KCB Bank Tanzania's total assets grew by 50% to cross TShs. 1 trillion catapulting the bank to tier I status in the market. In addition, total revenue grew by 25% to KShs. 4.0 billion in 2022.

Our Footprint	
Branches	**15**
ATMs	**17**
Agents	**373**
Merchant outlets	**570**
Staff	**301**

Our performance	2022 KShs million	2021 KShs million
Total income	4,014	3,206
Operating expense	(1,683)	(1,283)
PAT	1,087	722
Total assets	**58,427**	**38,932**

South Sudan

KCB Bank South Sudan's total assets grew to KShs. 16.2 billion supported by resumption in lending which saw the loan book grow by 172%.

The IMF estimates that South Sudan's economy grew by 6.5% in 2022, up from 5.3% in the prior year. The rally in global fuel prices boosted government revenues and spending but was countered by falling oil export volumes and sharp budget cuts by humanitarian agencies operating in South Sudan. Humanitarian agencies reduced purchases and deliveries of food aid in 2022 as international prices soared and donor support declined. Aid is equivalent to roughly a quarter of South Sudan's GDP, with consumption by non-profit institutions making up a large portion of total private consumption.

In November 2022, the IMF and South Sudanese authorities reached a staff-level agreement for USD 112.7 million (SDR 86.1 million) in emergency financing through the IMF's new food shock window of the rapid credit facility, combined with a program monitoring with Board involvement.

This emergency financing will help South Sudan address food insecurity, support social spending, and boost international reserves. The program monitoring package will support economic policies aimed at maintaining macroeconomic stability and debt sustainability. This disbursement will bring total outstanding fund credit under emergency financing instruments to South Sudan to SDR 246.0 million, or 100% of its quota at the IMF.

The signing of the Revitalized Agreement on the Resolution of the Conflict in the Republic of South Sudan (R-ARCSS) in September 2018 and the formation of a Transitional Government of National Unity in February 2020 have contributed to recovery and peacebuilding. A two-year extension of the R-ARCSS to February 2025 will allow the government to meet key milestones in the peace agreement. At the same time, a resumption of oil production in oil fields, previously shutdown due to conflict, has raised the prospects of an economic recovery.

The annual inflation declined to an average of -6.5% in 2022 compared to 12.2% in 2021 as prices of food and nonalcoholic beverages eased throughout the year. The indicative exchange rate for South Sudanese Pound (SSP) against the US dollar rose to SSP 668.30 in December 2022 compared to SSP 432.1 in December 2021. This saw the SSP depreciate by 54.7% against the US dollar.

In March 2022, The Bank of South Sudan introduced a Term Deposit Facility Auction to commercial banks to be held after every two weeks. In November 2022, the central bank also reduced the amount of foreign currency auction for commercial banks and forex bureaus by 50%. This decision followed the successful implementation of the Term Deposit Facility auction, which has significantly contributed to the decline in growth of money supply to the desired target of a single digit.

Recovery in economic activities and sustaining of the peace process led to a resurgence in lending to the private sector. This saw KCB Bank South Sudan's loan book grow by 172% to KShs. 4.5 billion in 2022. This growth contributed to the increase in the Bank's total assets by 3% to KShs. 16.3 billion. In addition, we opened the UNMISS Malakal branch and secured the World Food Programme partnership paving way for other NGOs to re-establish their relationship with the Bank.

The business continued to register strong non-funded income growth and adoption of digital channels. This led to an increase in total revenue by 27% to KShs. 1.7 billion in 2022.

Our Footprint	
Branches	**14**
ATMs	**14**
Agents	**48**
Merchant outlets	**21**
Staff	**156**

Our performance	**2022 KShs million**	**2021 KShs million**
Total income	1,675	1,314
Operating expense	(604)	(431)
PAT	938	916
Total assets	**16,277**	**15,860**

Board of Directors

Gen. (Rtd) Dr. J. W. Karangi
Chairman

Garang Akuong

Yacoub Leju

Ahmed Mahmoud

Dr. Leonard Mwithiga

Jaldesa Roba
Managing Director

Anne Nyongesa
Company Secretary

Rwanda

Board of Directors

George Rubagumya
Chairman

Dr. Obuya Bagaka

Diana Hagumba

Jean Kalima

Alexis Nsengumuremyi

Pascal Nyiringango

Paul Russo, EBS

Patience Mutesi
Managing Director

Brice Manzi
Company Secretary

KCB Group completed the amalgamation of BPR and KCB Bank Rwanda to form BPR Bank Rwanda Plc, the second largest bank is Rwanda.

Rwanda's economy has been staging robust growth despite the unfavorable global environment. Real GDP grew by 8.2% in 2022 down from a growth of 10.9% in 2021. This moderation in growth was due, in part, to the effects of the war in Ukraine and the persistent risk of the COVID-19 pandemic in major economies. Services, agriculture and industry sectors contributed 47%, 25% and 21% of GDP respectively while 7% was attributed to adjustment for taxes less subsidies on products.

This growth was supported by the services sector which grew by 12.2% and contributed 5.7% to overall GDP growth. Within the services sector, wholesale and retail trade increased by 13.9% while transport activities increased by 21.7%. The agricultural sector grew by 1.6% and contributed 0.4% to the overall GDP growth. Industrial services grew by 5.0% supported by 11.0% and 14.0% growth in manufacturing and electricity respectively despite a 5.7% contraction in construction activities.

In October 2022, IMF and the Rwandan authorities reached a staff-level agreement on a 36-month Policy Coordination Instrument (PCI) and Resilience and Sustainability Facility (RSF) to support Rwanda's economic policies and reforms. Rwanda is the first African country to reach a staff-level agreement to access the RSF.

Rwanda's strong policy track record and its well-advanced climate strategy provide a sound basis for an impactful reform agenda. The new PCI, combined with RSF financing, will support the authorities' efforts to maintain macroeconomic stability, advance structural reforms, including climate adaptation and mitigation, and insure against downside risks. According to the agreement, Rwanda will have access to USD 310 million under the RSF.

The overall inflation decreased to 31.7% in December 2022 compared to 33.8% in November 2022 as food inflation decreased to 59.2% year on year. The annual inflation remained elevated to average 17.7% in 2022 compared to a deflation of 0.4% in 2021 as food inflation remained high to average 29.4%. Inflation continued to mount as increases in international commodity prices and the disruption of global supply chains led to substantial increase in energy, transport, and food prices.

The Rwandese Franc (RWF) depreciated by 6.03% against the USD to average RWF 1,030.60 to the US dollar in 2022 compared to RWF 988.9 in the previous year. The yield on the 91-day, 182-day and 364-day treasury bills averaged 7.26%, 8.17% and 8.66% respectively in December 2022 compared to 6.46%, 6.64% and 7.65% respectively in December 2021. In 2022, the National Bank of Rwanda Monetary Policy Committee increased the Central Bank Rate to 6.5% from 4.5% to curb the inflationary pressures that persisted during the period.

KCB Group completed the amalgamation of BPR and KCB Bank Rwanda to form BPR Bank Rwanda Plc. The amalgamated Bank is the second largest in the market and is well positioned to capitalize on the opportunities that exists in Rwanda.

To give the Bank impetus to offer innovative products and exceptional customer experience, we completed the merger and upgrade of the core banking system in 2022. The Bank posted 86% and 23% growth in total revenue and total assets respectively in 2022.

Our Footprint	
Branches	**152**
ATMs	**77**
Agents	**711**
Merchant outlets	**103**
Staff	**1,159**

Our performance KCBR	2022 KShs million	2021 KShs million
Total income	8,394	4,506
Operating expense	(3,952)	(2,207)
PAT	2,023	1,096
Total assets	**92,522**	**75,385**

Uganda

KCB Bank Uganda marked 15 years of operation. The Bank has continued to deepen digital products leading to an increase in revenue from these channels.

Real GDP grew by 6.3% in 2022 compared to 5.8% in the prior year supported by increased activities in manufacturing, trade, real estate, education, health and ICT. This growth was further supported by the agriculture sector which grew by 4.2%. The IMF projects the growth to improve to 5.7% in 2023. There are, however, substantial risks to the growth outlook, with the balance of risks tilted to the downside including delayed implementation of oil-related projects, tighter financial conditions coupled with fiscal consolidation, and materialization of a global recession. On the upside, growth could be stronger if foreign direct investment associated with oil-related projects is higher than anticipated.

Uganda's external position weakened in the 12 months to October 2022, reflecting adverse spillover effects associated with the Russia-Ukraine conflict, especially on the commodities terms of trade which exerted pressure on the balance of trade, keeping the current account on the weakening path.

The Bank of Uganda (BOU) raised the Central Bank Rate (CBR) by 100 basis points to 10% in October 2022 to contain inflationary pressures. The raise in CBR coupled with fiscal consolidation are expected to deliver the convergence of inflation to its medium-term target of 5% by the end of 2023. Consistent with the monetary policy actions, interest rates edged up while private sector credit extension was moderated. Inflation is showing signs of moderating and annual headline inflation declined marginally to 10.2% in December from 10.6% in November 2022 reflecting the impact of the monetary policy stance and the easing of annual electricity, fuel, and utilities inflation.

The weighted average 7-day interbank rate rose to 11.5% in the quarter to November 2022 from 9.5% in the quarter to August 2022. Banks more than doubled the uptake of the standing lending facility to UGX 17.1 trillion from 7.5 trillion in the same period. Yields on Government securities rose with yields on 364-day treasury bills rising to an average of 15% in the quarter to November 2022 from 12.1% in the quarter to August 2022. Similarly, the weighted average lending interest rates rose to 18% in the quarter to October 2022 from 16.7% in the quarter to July 2022.

The Uganda shilling posted a stronger than anticipated recovery appreciating against the US dollar by 3.7% in the fourth quarter, helping to lower the overall depreciation in 2022 to 4.8%. This recovery towards the end of the year was supported by the tightening of monetary policy, recent decline in global commodity prices such as crude oil, which eased the pressure on the deteriorating terms of trade, increase in remittances and foreign direct investment in the oil sector.

KCB Bank Uganda marked 15 years of operation in 2022. The Bank has continued to deepen digital products through mobile and internet banking leading to an increase in revenue from these channels. In addition, the Bank registered strong growth in non-funded income from merchant business. We increased the distribution of new smart POS terminals and onboarded new strategic merchants that drove business growth. This contributed to a 40% growth in total revenue to KShs. 2.9 billion in 2022. Increase in lending activities on the back of recovery from the pandemic led to a 43% growth in total assets to KShs. 35 billion in 2022.

Our Footprint	
Branches	**14**
ATMs	**14**
Agents	**366**
Merchant outlets	**281**
Staff	**274**

Our performance	2022 KShs million	2021 KShs million
Total income	2,851	2,036
Operating expense	(1,609)	(1,312)
PAT	1,043	270
Total assets	**35,279**	**24,638**

Board of Directors

Constant Mayende
Chairman

Edgar Omoto

Caroline Okongo

Allen Asiimwe

Robert Kabushenga

Evelyn Namara

Lawrence Kimathi

Edgar Byamah
Managing Director

Agnes Mayanja
Executive Director

Judy Mwangi
Company Secretary

Burundi

Board of Directors

Joseph Muigai
Chairman

Christian Nibasumba

Margaret Kositany

Lawrence Njiru

Yvette Munkurize

Japheth Achola

Masika Mukule
Managing Director

Herbert Fyiroko
Company Secretary

KCB Bank Burundi marked a decade of operations in 2022. Total assets and revenue grew by 35% and 20% respectively during the year.

Burundi's economy is estimated to have grown by 2.1% in 2022 compared to 3.1% in 2021, primarily driven by the agricultural sector. The coffee sector, Burundi's main source of exports, has rebounded strongly post the pandemic. Inflation increased in 2022 to average 18.8% from 8.4% in 2021 driven by higher food prices. Burundi has experienced a tough economic situation over the past seven years, which has led to fiscal deficit and balance of payments difficulties. To compensate for the loss of external resources, the government mobilized internal resources, but this has not been sufficient for an ever-increasing social demand, driven by sustained population growth. The shock linked to the COVID-19 pandemic and Russia - Ukraine war interrupted a still fragile economic recovery and intensified macroeconomic imbalances.

Prior to the pandemic in 2020, the country was recovering from an economic and political crisis. The war in Ukraine in 2022 disrupted this recovery momentum, with the associated higher import prices (food and fuel) and lower export prices (tea and coffee) and supply chain bottlenecks amplifying inflation pressures and external sustainability challenges. At the same time, the country is benefiting from the positive effects of the recent re-engagement with the international community, the lifting of E.U. and U.S. sanctions and ending of mandatory reporting by the U.N. Security Council.

In Burundi, over 90% of the population rely on agriculture, with little service and manufacturing activities. As such, Burundi's economy is more dependent on foreign aid which accounts for over 50% of government budget. In recent years, international organizations have been working with the government to address bureaucracy, security concerns, infrastructure, poor education and healthcare system. As a result, Burundi has been able to attract foreign direct investments to its coffee and tea industries which have been driving growth.

National debt in Burundi is estimated at 66.4% of GDP in 2022 compared to 66.6% in 2021. Public and publicly guaranteed debt constitutes most of the external debt and represents over 60.0% of total external debt. The trend in the state's expenditure execution rate appears satisfactory since 2016 and until 2021-2022, and it is more than 95% over the entire period. This reflects good budgetary credibility in Burundi, in terms of the allocation of budgetary funds.

The exchange rate for Burundian Franc (BIF) against the US dollar depreciated 0.25% to close the month of December 2022 at BIF 2,063.45. During the year, BIF depreciated by 2.85% from 2,006.30 at beginning of the year. With technical assistance from the IMF, the government has taken steps to reform its foreign exchange market, which has helped replenish the country's international reserves.

Yields on the 91-day, 182-day and 364-day treasury bills in December 2022 stood at 2.00%, 2.60% and 3.20% compared to 2.15%, 2.60% and 2.95% respectively in November. During the year, the 91-day treasury bill averaged 3.5% compared to 3.8% in 2021.

KCB Bank Burundi marked a decade of operations in 2022. The Bank has a market share of 4.6% based on average of deposits, loans, total assets, and profits before tax. We are a market leader in commissions and fees differentiating ourselves by speed of execution on transfers and intercompany transactions and enhanced client experience through seamless customer onboarding and relationship management. Total assets and revenue grew by 35% and 20% respectively in 2022.

Our Footprint	
Branches	**6**
ATMs	**8**
Agents	**170**
Merchant outlets	**56**
Staff	**142**

Our performance	2022 KShs million	2021 KShs million
Total income	1,533	1,279
Operating expense	(622)	(550)
PAT	600	518
Total assets	**16,210**	**12,039**

DRC

In 2022, KCB completed the acquisition of an 85% stake in Trust Merchant Bank (TMB) and commenced its integration into the Group.

The IMF estimates a real GDP growth of 6.6% in the Democratic Republic of the Congo (DRC) in 2022 supported by a 20% growth in mining activities. The Fund projects a further growth of 6.3% in 2023. Mining sector investment and exports remain the key drivers of growth supported by improved mineral prices and higher public investment.

Higher metal prices helped to offset the rise in food and oil prices leading to improved terms of trade and a balanced current account. This helped to build up reserves to an estimated 8.3 weeks of import cover in 2022, from 6.3 weeks a year earlier, and limiting excessive exchange rate fluctuations. Higher global energy and food prices due to the ongoing war in Ukraine continued to exert upward pressures on domestic inflation with the average inflation rate remaining unchanged at 9.0% in 2022.

Following the third review of the extended credit facility (ECF) in December last year, the IMF disbursed USD 203 million to DRC, bringing the total disbursement under the arrangement to USD 812.4 million, as part of the USD 1.52 billion agreed on in July 2021. The disbursement was aimed at supporting DRC to reinforce international reserves, given downside risks to the domestic and global economic outlook. The fiscal deficit is projected to have deteriorated to 1.6% in 2022 from 0.9% in 2021 as improved revenue mobilization could not fully offset higher capital and current transfer spending.

In 2022, KCB completed the acquisition of an 85% stake in Trust Merchant Bank (TMB) and commenced its integration into the Group. This coincided with the admission of the country into the East African Community. We consider that this acquisition will contribute positively to KCB's growth and diversification objectives.

This acquisition will contribute towards KCB's increased scale of operations by establishing our presence in a new market and providing income diversification from a geographical perspective. It will accelerate our market presence in the DRC in the near term by leveraging TMB's 19-year history, vast branch network, valuable local customer relationships and deep knowledge of local business dynamics. In addition to the core banking business of TMB, the existence of an insurance subsidiary, Afrissur SA, will provide opportunity for KCB to diversify its offerings in DRC in the insurance sector.

The acquisition will also leverage current strengths of both KCB and TMB and generate tangible value to customers, shareholders, and other stakeholders. These include strong capital and liquidity position that provides an operational resilience, access to innovative, competitive, and diversified products and service offerings, digital acceleration and improved long-term sustainable returns to shareholders' funds.

Furthermore, the acquisition will enable realization of synergies through balance sheet optimization through reallocation of assets to higher earning asset categories, incremental lending through enhancement of products and services, lower Group cost of funding through ready access to hard currency, growth in non-interest income from innovative and competitive financial services to customers, cost rationalization and operational efficiencies.

The Group consolidated TMB's balance sheet in its 2022 results yielding KShs. 210 billion in total assets. Since the acquisition was completed in Q4, we have only consolidated TMB's results for the month of December in the Group's income statement yielding KShs. 2.3 billion in total revenue and a pretax loss of KShs. 65 million. If the combination had taken place at the start of the year, the contribution to the Group would have been KShs. 15.3 billion in revenue and KShs. 3.0 billion in profit before tax.

Our Footprint	
Branches	**105**
ATMs	**85**
Agents	**2,938**
Merchant outlets	**532**
Staff	**1,752**

Our performance	2022 KShs million	2021 KShs million
Total income	2,323	-
Operating expense	(1,505)	-
PAT	(291)	-
Total assets	**210,225**	**-**

Board of Directors

Robert Levy
Chairman

Oliver Meisenberg
Managing Director

Alexandre Mandeiro
Executive Director

Yannick Ngandu
Executive Director

Daniel Ilunga
Executive Director

Christian Mwamba
Director

Celestin Tshibwabwa
Director

Bernard De Gerlache
Director

Giovanni Zunino
Director

Group Chief Executive Officer's Statement

Positioning KCB, For People. For Better.

Dear shareholders,

In my two-decade long career, almost half of it in various roles at KCB Group, I have had the opportunity to address a diverse group of colleagues, customers, and other stakeholders on various occasions. While all these engagements remain valuable to me, I feel particularly privileged today to write my first letter to the stakeholder who occupies the uppermost echelon in the structure of our organization — you, our shareholder.

Nearly a year ago, I took over as the Group CEO and I must say that it has been an exciting journey shepherding this great organization, for the benefit of all our stakeholders. Through this letter, I shall delve into the key themes that impacted on or resulted from our quest to meet our strategic goals in 2022, and share with you my take about the journey ahead as well as my vision for the Group.

External environment

We have witnessed notable improvement in economic activities over the past two years post the pandemic, although macroeconomic uncertainties persist. Across the East Africa region, the rally in economic growth which started in 2021 continued throughout 2022 albeit at a slower pace. This expansion was underpinned by heightened business activities and a rebound in key sectors. Our role as KCB was to support the recovery of personal customers and businesses across the region to enable them to bounce back stronger. On this front, we were able to achieve success.

However, there were challenges, key of which was the persistent rise in inflation globally and across the region driven by a myriad of factors both in the internal and external environments. We all felt this impact and had to grapple with a shrinking consumer wallet in our homes and rising costs in our businesses.

To contain this inflationary pressure, central banks across the globe raised interest rates at a much faster pace in 2022. While this was a necessary measure, it brought about some unintended consequences to the capital markets in our region. The general rise in interest rates especially in the developed markets, led to the skewing of investments towards short tenor higher yielding bonds over offshore equities. In addition, the implications of the strengthening US dollar further dissuaded foreign investment in frontier markets such as our primary listing bourse in Kenya.

Total Income		Profit After Tax	
2021	2022	2021	2022
KShs. 109.3 Billion	KShs. 128.2 Billion	KShs. 34.2 Billion	KShs. 40.6 Billion

These developments served to drive down stock valuations with the KCB share price shedding 16.2% during the year. However, our fundamentals remain solid, and the low price offers a great entry point for new investors and an opportunity for existing ones to increase their shareholding and earn superior returns as the market recovers.

Business growth and performance

We maintained steady growth in all our core indicators during the year which culminated in an impressive performance both in the balance sheet and in profitability. Total assets surged to KShs 1.55 trillion, becoming the largest of any Bank in Eastern Africa. We delivered an organic growth of KShs 214 billion in assets driven by growth in loans and investment in government securities, funded by increased customer deposits and additional borrowings. Consolidation of our newly acquired subsidiary Trust Merchant Bank (TMB) in the Democratic Republic of the Congo (DRC) availed an additional KShs 210 billion in assets, placing the subsidiary as the second largest in the Group in total assets.

On the income side, we achieved record revenue and net profits of KShs. 128.2 billion and KShs. 40.8 billion respectively. This was made possible by strong revenue momentum across the corporate and retail businesses. Our focus was on delivering value and support to our customers to help them navigate the tough economic environment, while driving revenue growth for the Bank through both funded and non-funded income lines.

Powering progress with market-leading value propositions

Our remarkable performance in 2022 was borne out of our diligent implementation of our strategy, aptly dubbed Beyond Banking. Through this strategy we seek to deliver exceptional customer experience and drive a digital future. During the year, we continued to embed customer obsession across the Group to

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position it as the key pillar through which we deliver our strategy. It is upon this premise that we continuously innovated and delivered products with leading value propositions.

We deepened our support to the micro, small and medium sized enterprises (MSME) which power the bulk of the businesses across the region. To avail more lending to this key segment, we revised terms for key products for working capital as well as asset-based finance. We also enhanced digitization and automation of the lending process including deployment of prescoring models to shorten the swim-lane in credit processing.

In addition, we rolled out a Female Led and Made Enterprises (FLME) proposition which will go a long way in supporting women entrepreneurship, job creation, and strengthen our outreach towards unique market segments. We purpose to disburse KShs 250 billion through this product in a five-year period. It is through such efforts that we bring to life our purpose as well as aid in tackling some of society's biggest socio-economic challenges, including securing dignified economic opportunities for all.

Furthermore, in a bid to drive one of our key strategic focus areas of attracting new to bank customers and cross selling across our branches, we introduced an affordable housing mortgage proposition. This product benefits customers in the lower-middle and middle-income earning brackets across consumer and MSME segments. Through this product, we seek to increase and encourage home ownership, reduce demand deficit of decent housing, increase social well-being, and promote financial inclusion.

In our schools, we provided support with facilities for clean energy and infrastructure improvement. We also partnered with an education technology firm to enable our customers to sign up their children for coding lessons at discounted rates and pay in instalments. Schools can also access classroom licenses at these discounted rates. KCB has traditionally supported the advancement of education across various levels, and we are now at the forefront of driving the mainstreaming of digital learning.

These initiatives, alongside others, saw us ramp up our lending significantly during the year. We disbursed close to KShs. 500 billion in new loans over this period, injecting the much-needed financing in the economy to power economic growth and drive progress.

Deepening digital channels

We have been making great strides investing in modernizing both our hardware and application infrastructure to improve capacity and systems capability. This has resulted in more customers opting to conduct their transactions with seamless ease and security on our digital channels. This is supported by our resolve to ensure round the clock availability of both the core and auxiliary banking systems, achieving an uptime of 99.73% in 2022. As a result, the proportion of transactions by number conducted through non-branch channels grew to an all-time high of 99%. This growth was driven by internet banking, mobile banking, and merchants. At the same time, ATMs continued to be a key channel for deposits mobilization with collections of KShs 323 billion in deposits, equivalent to 76% of ATM volumes.

The continued deepening of these digital channels allows branches to focus on growing the business, serve as relationship centres and drive exceptional customer experience while processing customer transactions. The volume of these transactions processed by branches grew by 6% in 2022 to KShs 4.4 trillion underpinning the significant role these outlets continue to play in our ecosystem.

For every five transactions conducted across our touchpoints, four are on mobile, a clear testament of the level of customer preference for this channel, and a validation of the investments we have made in building a robust mobile banking platform. Through this platform, we offer a channel for customers to save, borrow and make payments on the go with unmatched convenience.

During the year, we heightened our focus on the one till proposition where we sought to drive deposit mobilization by providing merchants with an affordable and convenient collection solution to terminate payments into their bank accounts. We then bid to create stickiness by offering credit lines based on the cash flow tied to this product. Our intention going forward is to expand our ecosystem to generate a strong network of merchants and agents to create a circular best in class experience for our customers.

Moreover, we availed more mobile lending products to cater for various market segments. Besides KCB M-Pesa, KCB mobile loan, Fuliza and retailer financing, we also introduced Kopa Float to enable mobile money and our bank agents to access funds to meet their working capital needs. Through these various mobile lending products, we disbursed KShs. 193 billion in 2022. In December, KCB was also selected by the Government of Kenya to deliver its flagship financial inclusion product dubbed Hustler Fund to provide affordable micro credit to the underserved segments of the economy.

Asset quality

Reducing the stock of nonperforming loans remained a key focus area for us during the year. Most of our key segments which represent a significant size of our book such as retail checkoff, MSME and residential mortgages continue to perform well. This performance is attributed to the maintenance of quality underwriting standards and prudent management of our lending portfolio. However, challenges exist in the manufacturing, real estate, road construction and transport sectors majorly due to macroeconomic challenges in their operating environments.

With the primary focus being preservation of value for all stakeholders, we have in place plans geared towards further reducing the size of these nonperforming loans. These include fast tracking ongoing recovery efforts, write offs for accounts that have full provision and limited turnaround possibility, asset disposal for accounts with high value collateral and minimal turn around probability, seeking strategic investors to buy into and inject capital into viable businesses, exploring debt externalization and pursuing various forms of administration arrangements. These initiatives are already bearing fruit with the stock of these nonperforming loans, easing to KShs 161 billion at the end of the year from a high of KShs 173 billion in June.

The people agenda

Our employees remain an important pillar upon which we deliver our strategy. Our success during the year could not have been possible without the grit and determination of every single employee in the Group. We continue to upskill our staff through targeted training programmes to develop key competencies and provide a talent cover.

During the year, we unveiled our new brand purpose, For People, For Better. Through this purpose, we seek to position our brand as the region's undisputed financial services leader which puts people and their diverse needs first, to make life better for the millions of customers we serve. To achieve this, we will be guided by our values of being closer, connected, and courageous anchored on the pillars of customer obsession, productive culture, and sharper execution.

In addition, the Group Board considered and approved a new Group organization structure during the year. The structure places special attention on sharpening execution across the business, aligning Group business roles, and giving renewed attention to customer centricity. I am happy to inform you that we have completed the implementation and we are leveraging this structure to realize our strategic ambitions.

The making of a regional powerhouse

While KCB's growth in the past has been majorly driven by Kenya, its future hinges on becoming a significant regional player. It is against this backdrop that we have continued to bolster our capacity to match the meaningful role that we seek to play and become an undisputed leader in our region.

We will continue to support the Kenya business to scale new heights while at the same time seeking to grow the non-KCB Bank Kenya businesses to enhance their contribution to the Group's bottom-line. In furtherance to this, we have taken deliberate steps in recent years to drive growth through targeted acquisitions which fit within our strategy. This saw us onboard BRP Bank Rwanda and more recently, TMB into the KCB fold.

BPR Bank offers us a bigger platform to compete effectively and grow our business in Rwanda. TMB on the other hand gives us an opportunity to complete our East Africa Community presence and serve a wider market in the region. With our entry into DRC, the Group now has a footprint cutting across the entire breadth

> During the year, we unveiled our new brand purpose, For People, For Better. Through this purpose, we seek to position our brand as the region's undisputed financial services leader.

> With our entry into DRC, the Group now has a footprint cutting across the entire breadth of Africa, from our branches in Mombasa, on the shores of the Indian Ocean in Kenya, to Muanda on the coast of the Atlantic Ocean in DRC.

of Africa, from our branches in Mombasa, on the shores of the Indian Ocean in Kenya, to Muanda on the coast of the Atlantic Ocean in DRC. Between these two points, we serve 32 million customers across various touchpoints. We have plans in place to leverage the synergies that these acquisitions provide to create efficiencies and agility across the organisation and strengthen our market position in these markets.

During the year, we commenced the integration process in Rwanda after we merged our two businesses there. We have since concluded the consolidation and upgrade of the core banking system for the Bank, which was a key milestone in our integration journey. We envisage that the upgraded system will harmonize channels applications to create a unified, seamless, and improved customer experience across all customer touch points.

We also completed the reorganization of KCB Capital Limited (KCBCL) and NBK's National Trustee and Investment Services Limited (NTISL). This reorganization led to the creation of two entities who will be well positioned to harness their synergies to create an investment products powerhouse. KCBCL was be rebranded to KCB Investment Bank and will offer wealth management, advisory, brokerage services as well as the distribution of collective investment schemes with a focus on money market fund.

NTISL was rebranded to KCB Asset Management and will focus on the provision of fund management, corporate trustee, and pension management services as well as the development of collective investment schemes and unit trusts.

Sustainability

Operating in a sustainable manner is top of mind for us. The embedding of sustainability in our strategy has enabled us to support transition to clean energy for millions of customers as well as rejig our own internal practices to ensure that we operate sustainably. Green loans are essential to combating climate change since considerable expenditures at a wide scale are needed to reduce emissions, particularly in industries that produce vast amounts of greenhouse gases. To channel more financing to these initiatives, we have set ourselves an ambitious target to raise the portfolio of green loans in our loan book to 25% by 2025. In 2022, this portfolio grew by 390 basis points to 12.3%. Through this commitment we chart a compelling pathway to a carbon neutral future, while presenting the potential to drive significant economic growth and inspire new innovations to address present day challenges.

Greening of our loan portfolio and reducing our resource consumption will be instrumental in achieving this target. Capacity building for our staff is also a key focus area for us as well as the time-tested practice of afforestation to drive carbon sequestration. We are leveraging our branches to partner with local secondary schools and community groups to grow and nurture these trees in their regions. Furthermore, through these partnerships, the Bank seeks to unlock KShs 500 million in lending to economically viable tree growing initiatives for bamboo, mango, and avocado trees among others as a source of livelihood.

Climate change risk is undoubtedly a great risk to financial institutions. Therefore, we subject every project above KShs. 50 million to environmental and social due diligence (ESDD) screening which includes mapping climate risks. In 2022, we screened facilities worth KShs 270.4 billion. Looking at our shared value focus, the KCB Foundation continues to make a significant impact in the communities we operate in, by scaling our flagship program, 2jiajiri to support the youth. We have also enhanced humanitarian support and the education scholarship programme.

Outlook

We entered 2023 with positive momentum and we shall build on this and ensure that we make significant step change in culture and performance, across all our business units, supported by our new brand purpose. Despite a challenging operating environment, the belief in our people, embedded purpose, enhanced digital capabilities, impetus in our regional businesses and onboarding of TMB makes us bullish about 2023. Our unwavering commitment to customer centricity will continue to drive our vision and strategy. Our focus to deliver on our strategy in 2023 will be underpinned by execution of embedding of customer obsession, new to bank customer acquisition, cross selling of products, being digital to the core, enhancing operational efficiency, prudent asset quality management, and delivering a tangible culture transformation.

In conclusion, I would like to thank the Group Board of Directors for giving me the opportunity to lead our able teams across the Group. I also thank you, our shareholders, customers, and partners for your trust in the year. I thank my colleagues across the Group for their tireless dedication to KCB's strategic goals and ongoing success, and my predecessor Joshua Oigara, for the immense role he played to set the Group on good momentum. I seek to build on this strong platform to deliver on our ambitions.

The KCB lion will continue to roar, and the roar will be loud and undisputed, For People. For Better.

Paul Russo, EBS
Group Chief Executive Officer

Taarifa ya Afisa Mtendaji Mkuu wa Kundi

Kuweka KCB, Kwa Watu. Kwa Bora.

Wapenzi wanahisa,

Katika muda wa miongo miwili niliyofanyia kazi, karibu nusu yake nikiwa na majukumu mbalimbali hapa kwenye Kundi la KCB, nimepata fursa ya kuhutubia makundi tofauti ya wafanyikazi wenzangu, wateja, na washikadau wengine katika hafla mbalimbali. Ingawa mashirikiano haya yote yanasalia kuwa ya thamani kwangu, ninahisi kubahatika sana leo kuandika barua yangu ya kwanza kwa mshikadau ambaye anashikilia nafasi ya juu zaidi katika muundo wa shirika letu - wewe, mwenyehisa wetu. Mwaka mmoja uliopita, nilichukua nafasi kama Mkurugenzi Mtendaji wa Kundi na lazima niseme kwamba imekuwa safari ya kusisimua kuongoza shirika hili kuu, kwa manufaa ya wadau wetu wote. Kwenye barua hii, nitaangazia mada kuu zilizoathiri, au zilizotokana na, azma yetu ya kufikia malengo yetu ya kimkakati katika mwaka wa 2022, na kushiriki nanyi maoni yangu kuhusu safari iliyo mbele yetu pamoja na maono yangu kwa Kundi.

Mazingira ya nje

Tumeshuhudia uboreshaji mkubwa katika shughuli za kiuchumi katika kipindi cha miaka miwili iliyopita baada ya janga la Covid-19, ingawa sintofahamu za kiuchumi zinaendelea. Katika kanda ya Afrika Mashariki, safari ya ukuaji wa uchumi ulioanza mwaka 2021, uliendelea mwaka 2022 ingawa kwa kasi ndogo. Upanuzi huu ulichangiwa na kuongezeka kwa shughuli za biashara na kurudi kwa hali ya kawaida katika sekta muhimu. Jukumu letu kama KCB lilikuwa kusaidia urejeshaji wa wateja wa kibinafsi na biashara kwenye kanda hii, ili kuwawezesha kurejea kwa nguvu zaidi. Kwa upande huu, tuliweza kufikia mafanikio.

Hata hivyo, kulikuwa na changamoto, jambo kuu ikiwa ni kuongezeka kwa mfumuko wa bei duniani kote na katika eneo zima kwa kuchochewa na maelfu ya mambo katika mazingira ya ndani na nje. Sote tulihisi athari hii na ilibidi tukabiliane na kupungua kwa pochi ya watumiaji majumbani mwetu na kupanda kwa gharama katika biashara zetu.

Ili kudhibiti shinikizo hili la mfumuko wa bei, benki kuu kote ulimwenguni zilipandisha viwango vya riba kwa kiasi kikubwa zaidi mwaka wa 2022. Ingawa hii ilikuwa hatua ya lazima, ilileta matokeo yasiyotarajiwa kwa soko la mitaji katika eneo letu. Kupanda kwa jumla kwa viwango vya riba hasa katika masoko yaliyoendelea, kulisababisha kuyumba kwa uwekezaji kuelekea dhamana fupi za mavuno ya juu zaidi ikilinganishwa na hisa za nje ya nchi. Zaidi ya hayo, athari za kuimarika kwa dola ya Marekani zilizuia zaidi uwekezaji wa kigeni katika masoko ya mipakani kama vile malipo ya msingi ya kuorodhesha nchini Kenya.

Maendeleo haya yalisaidia kupunguza uthamini wa hisa huku bei ya hisa ya KCB ikipungua kwa asilimia 16.2 katika mwaka huo. Hata hivyo, misingi yetu inasalia kuwa thabiti, na bei ya chini inatoa nafasi nzuri ya kuingia kwa wawekezaji wapya na fursa kwa waliopo kuongeza umiliki wao wa hisa na kupata faida bora zaidi kadiri soko linavyoimarika.

Ukuaji wa biashara na utendaji

Tulidumisha ukuaji thabiti katika viashirio vyetu vyote vya msingi katika mwaka ambao ulifikia kilele cha utendaji wa kuvutia katika mizani ya kifedha na katika faida. Jumla ya mali ilipanda hadi shilingi trilioni1.55, na kuwa kubwa kuliko Benki yoyote katika Afrika Mashariki. Tuliwasilisha ukuaji wa undani kwa shilingi bilioni 214 katika mali, kutokana na ukuaji wa mikopo na uwekezaji katika dhamana za serikali, unaofadhiliwa na ongezeko la amana za wateja na mikopo ya ziada. Kuunganishwa kwa kampuni yetu mpya tanzu ya Trust Merchant Bank (TMB) katika Jamhuri ya Kidemokrasia ya Kongo (DRC) kumetoa ziada ya shilingi bilioni 210 katika mali, na kuifanya kampuni hiyo tanzu kuwa ya pili kwa ukubwa katika Kundi, kwenye ujumla wa mali.

Kwa upande wa mapato, tulipata mapato na faida halisi ya shilingi bilioni 128.2 na shilingi bilioni 40.8 mtawalia. Hili liliwezeshwa na kasi kubwa ya mapato katika biashara za ushirika na rejareja. Lengo letu lilikuwa kutoa thamani na usaidizi kwa wateja wetu ili kuwasaidia kukabiliana na mazingira magumu ya kiuchumi, huku tukichochea ukuaji wa mapato kwa Benki kupitia njia za mapato zinazofadhiliwa na zisizofadhiliwa.

Kuimarisha maendeleo kwa kutumia mapendekezo ya thamani inayoongoza sokoni

Matokeo yetu mazuri mwaka wa 2022 yamechangiwa na utekelezaji wetu wa mkakati wetu kwa bidii, unaoitwa Beyond Banking. Kupitia mkakati huu tunatafuta kutoa uzoefu wa kipekee wa wateja na kuendeleza mustakabali wa kidijitali. Katika mwaka huo, tuliendelea kuyafikia matamanio ya wateja wetu kote katika Kundi ili kukiweka kama nguzo kuu ambayo kwayo tunawasilisha mkakati wetu. Ni kutokana na msingi huu kwamba tuliendelea kuvumbua na kuwasilisha bidhaa zenye mapendekezo ya thamani kuu.

> Kwa upande wa mapato, tulipata mapato na faida halisi ya shilingi bilioni 128.2 na shilingi bilioni 40.8 mtawalia. Hili liliwezeshwa na kasi kubwa ya mapato katika biashara za ushirika na rejareja.

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Tuliongeza usaidizi wetu kwa biashara za chini, ndogo na za kati almaarufu (MSME) ambazo zinapiga jeki biashara nyingi katika eneo lote. Ili kupata mikopo zaidi kwa sehemu hii muhimu, tulirekebisha masharti ya bidhaa muhimu za mtaji wa kufanya kazi na pia fedha zinazotegemea mali. Pia tuliboresha uwekaji kidijitali na uwekaji otomatiki wa mchakato wa ukopeshaji, ikiwa ni pamoja na kuanzisha mifumo ya awali ili kuongeza kasi katika utoaji wa mikopo.

Zaidi ya hayo, tulitoa pendekezo la kuangazia biashara zinazoongozwa na kujengwa na wanawake (FLME), ambalo litasaidia kwa kiasi kikubwa kusaidia ujasiriamali wa wanawake, uundaji wa nafasi za kazi, na kuimarisha ufikiaji wetu kuelekea sehemu za kipekee za soko hilo. Tunakusudia kutoa shilingi bilioni 250 kupitia bidhaa hii katika kipindi cha miaka mitano. Ni kupitia juhudi hizo ndipo tunafanikisha kusudi letu na pia nia ya kusaidia katika kukabiliana na baadhi ya changamoto kubwa za kijamii na kiuchumi, ikiwa ni pamoja na kupata fursa za kiuchumi zenye heshima kwa wote.

Zaidi ya hayo, katika jitihada za kuendesha mojawapo ya maeneo yetu muhimu ya kimkakati ya kuvutia wateja wapya kwa benki na kuuza katika matawi yetu yote, tulianzisha pendekezo la mikopo ya nyumba ya bei nafuu. Bidhaa hii inawanufaisha wateja walio katika viwango vya mapato ya chini na ya kati katika sehemu za wateja wetu na MSME. Kupitia bidhaa hii, tunatafuta kuongeza na kuhimiza umiliki wa nyumba, kupunguza nakisi ya mahitaji ya makazi bora, kuongeza ustawi wa jamii, na kukuza ushirikishwaji wa kifedha.

Katika shule zetu, tulitoa msaada wa vifaa vya nishati safi na uboreshaji wa miundombinu. Pia tulishirikiana na kampuni ya teknolojia ya elimu ili kuwawezesha wateja wetu kusajili watoto wao kwa ajili ya masomo ya usimbaji kwa bei zilizopunguzwa na kulipa kwa awamu. Shule pia zinaweza kupata leseni za darasani kwa viwango hivi vilivyopunguzwa. Kama moja ya desturi zetu, KCB imeunga mkono maendeleo ya elimu katika viwango mbalimbali, na sasa tuko mstari wa mbele katika kuendeleza ujumuishaji wa mafunzo ya kidijitali.

Juhudi hizi, pamoja na zingine, zilitufanya tuongeze mikopo yetu kwa kiasi kikubwa katika mwaka huo. Tulitoa takriban shilingi bilioni 500 katika mikopo mipya katika kipindi hiki, na kuingiza ufadhili unaohitajika katika uchumi, ili kukuza ukuaji wa uchumi na kuendeleza maendeleo.

> Tuliongeza usaidizi wetu kwa biashara za chini, ndogo na za kati almaarufu (MSME)

Kukuza njia za kidijitali

Tumekuwa tukipiga hatua kubwa kuwekeza katika kuboresha maunzi yetu na miundombinu ya programu ili kuboresha uwezo wetu na mifumo yetu. Hii imesababisha wateja zaidi kuchagua kufanya miamala yao kwa urahisi na usalama kwenye njia zetu za kidijitali. Hili linaungwa mkono na azimio letu la kuhakikisha upatikanaji wa kila saa wa mifumo kuu na ya ziada ya benki, na kufikia muda wa nyongeza wa asilimia 99.73 mwaka wa 2022. Kwa hiyo, idadi ya miamala dhidi ya idadi iliyofanywa kupitia njia zisizo za tawi iliongezeka hadi kufikia kiwango cha juu kwa muda wote cha asilimia 99. Ukuaji huu ulichochewa na benki ya mtandao, simu benki, na wafanyabiashara. Wakati huo huo, ATM ziliendelea kuwa njia kuu ya uhamasishaji wa amana kwa kuwa na makusanyo ya amana za shilingi bilioni 323, sawa na asilimia 76 ya juzuu za ATM.

Kuendelea kukua kwa njia hizi za kidijitali huruhusu matawi kuzingatia kukuza biashara, kutumika kama vituo vya uhusiano na kuendesha uzoefu wa kipekee kwa wateja wakati wa kushughulikia miamala ya wateja. Kiasi cha miamala hii iliyochakatwa na matawi ilikua kwa asilimia 6 mwaka wa 2022 hadi shilingi trilioni 4.4, ikiashiria pakubwa jukumu muhimu ambalo maduka haya yanaendelea kutekeleza katika mfumo wetu wa ikolojia.

Kwa kila miamala mitano inayofanywa kwenye sehemu zetu zote za mawasiliano, nne ziko kwenye simu ya mkononi, uthibitisho wa wazi wa kiwango cha mapendeleo ya mteja kwenye kituo hiki, na uthibitisho wa uwekezaji ambao tumefanya katika kujenga jukwaa thabiti la benki ya simu (simu benki). Kupitia jukwaa hili, tunatoa njia mwafaka kwa wateja kuhifadhi, kukopa na kufanya malipo popote pale kwa urahisi.

Katika mwaka huo, tulizidisha mkazo wetu kwenye pendekezo la kuwa na till moja, tulipojaribu kuendeleza uhamasishaji wa amana kwa kuwapa wafanyabiashara suluhisho la bei nafuu na linalofaa la kukusanya ili kusitisha malipo kwenye akaunti zao za benki. Kisha tunatoa zabuni ya kuunda ushikamano kwa kutoa njia za mkopo kulingana na mzunguko wa pesa unaohusishwa na bidhaa hii. Nia yetu ya kwenda mbele ni kupanua mfumo wetu wa ikolojia ili kuzalisha mtandao thabiti wa wafanyabiashara na mawakala ili kuunda uzoefu bora wa hali ya juu kwa wateja wetu.

Zaidi ya hayo, tulipata bidhaa zaidi za kukopesha za simu ili kuhudumia sehemu mbalimbali za soko. Kando na KCB M-Pesa, mkopo wa simu wa KCB, Fuliza na ufadhili wa wauzaji reja reja, pia tulianzisha Kopa Float ili kuwezesha pesa za simu na mawakala wetu wa benki kupata fedha za kukidhi mahitaji yao ya mtaji. Kupitia bidhaa hizi mbalimbali za utoaji mikopo kwa simu, tulitoa shilingi bilioni 193 mwaka wa 2022. Mwezi wa Disemba, KCB pia ilichaguliwa na Serikali ya Kenya kuwasilisha bidhaa yake kuu ya ujumuishaji wa kifedha iliyopewa jina la Hustler Fund ili kutoa mkopo mdogo wa bei nafuu kwa wasiokuwa na ajira.

> Wafanyakazi wetu wanasalia kuwa nguzo muhimu ambayo kwayo tunawasilisha mkakati wetu. Mafanikio yetu katika mwaka huo yasingewezekana bila uthabiti na azimio la kila mfanyakazi.

Ubora wa mali

Kupunguza akiba ya mikopo chechefu kulisalia kuwa suala kuu kwetu katika mwaka huo. Sehemu zetu nyingi muhimu ambazo zinawakilisha ukubwa wa pato letu kama vile malipo ya rejareja, MSME na rehani za makazi zinaendelea kufanya kazi vizuri. Utendaji huu unachangiwa na udumishaji wa viwango vya uandishi wa ubora na usimamizi zuri wa kitengo chetu cha utoaji mikopo. Hata hivyo, changamoto zipo katika sekta ya viwanda, ujenzi wa nyumba, ujenzi wa barabara na usafiri kutokana na changamoto za uchumi mkuu katika mazingira yao ya uendeshaji.

Huku lengo kuu likiwa ni uhifadhi wa thamani kwa washikadau wote, tumeweka mipango inayolenga kupunguza zaidi ukubwa wa mikopo hii chechefu. Hizi ni pamoja na ufuatiliaji wa haraka wa juhudi zinazoendelea za urejeshaji, kufuta akaunti ambazo zina utoaji kamili dhidi ya uwezekano mdogo wa kubadilisha, uondoaji wa mali kwa akaunti zilizo na dhamana ya juu na uwezekano mdogo wa mabadiliko, kutafuta wawekezaji wa kimkakati wa kununua na kuingiza mtaji katika biashara ziilizo na uwezo, kuchunguza madeni. Nje na kufuata aina mbalimbali za mipangilio ya utawala. Juhudi hizi tayari zinazaa matunda kutokana na akiba ya mikopo hii ambayo haifanyiki vizuri, ikipungua hadi shilingi bilioni 161 mwishoni mwa mwaka 2022 kutoka shilingi bilioni 173 mwezi Juni mwaka 2022.

Ajenda ya watu

Wafanyakazi wetu wanasalia kuwa nguzo muhimu ambayo kwayo tunawasilisha mkakati wetu. Mafanikio yetu katika mwaka huo yasingewezekana bila uthabiti na azimio la kila mfanyakazi katika Kikundi. Tunaendelea kuinua ujuzi wa wafanyakazi wetu kupitia programu mwafaka za mafunzo ili kukuza ujuzi muhimu na kutoa taaluma ya vipaji.

Katika mwaka huo, tulizindua kusudi letu jipya la chapa, Kwa Ajili ya Watu, Kwa Ubora Zaidi. Kupitia madhumuni haya, tunatafuta kuweka chapa yetu kama kinara wa huduma za kifedha bila kupingwa katika eneo hili ambayo inatanguliza watu na mahitaji yao mbalimbali, ili kuboresha maisha ya mamilioni ya wateja tunaowahudumia. Ili kufikia hili, tutaongozwa na maadili yetu ya kuwa karibu zaidi, kushikamana, na kujikita kwa ujasiri kwenye nguzo za kuwavutia wateja, utamaduni wenye tija, na utekelezaji mkali zaidi.

Zaidi ya hayo, Bodi ya Kundi ilizingatia na kuidhinisha muundo mpya wa shirika katika mwaka huo. Muundo huu unaweka kipaumbele maalum katika kuimarisha utekelezaji katika biashara nzima, kuoanisha majukumu ya biashara ya Kikundi, na kuzingatia upya umakini wa wateja. Ninayofuraha kuwajulisha kuwa tumekamilisha utekelezaji na tunautumia muundo huu ili kutimiza malengo yetu ya kimkakati.

Uundaji wa nguvu ya kikanda

Ingawa ukuaji wa KCB hapo awali ulichochewa zaidi na Kenya, mustakabali wake unategemea kuwa mdau muhimu kwenye kanda hii. Ni kutokana na hali hii kwamba tumeendelea kuimarisha uwezo wetu ili kuendana na jukumu la maana ambalo tunatafuta kutekeleza na kuwa viongozi katika eneo letu.

Tutaendelea kuunga mkono biashara ya Kenya ili kuongeza viwango vipya huku tukitafuta kukuza biashara zisizo za Benki ya KCB Kenya ili kuboresha mchango wao katika msingi wa Kundi. Katika kuendeleza hili, tumechukua hatua za kimsingi katika miaka ya hivi majuzi ili kukuza ukuaji kupitia upataji uliodhamiriwa ambao unafaa ndani ya mkakati wetu. Hii ilituwezesha kujumlisha benki ya BRP Rwanda na hivi majuzi zaidi, TMB kwenye kundi la KCB.

Benki ya BPR inatupa jukwaa kubwa zaidi la kushindana vyema na kukuza biashara yetu nchini Rwanda. TMB kwa upande mwingine inatupa fursa ya kukamilisha uwepo wetu katika nchi za Jumuiya ya Afrika Mashariki na kuhudumia soko kubwa zaidi katika ukanda huu. Kuingia kwetu DRC, Kundi hili sasa linawakilishwa katika upana wote wa Afrika, kuanzia matawi yetu huko Mombasa, kwenye mwambao wa bahari ya hindi nchini Kenya, hadi Muanda kwenye pwani ya bahari ya atlantiki nchini DRC. Katika sehemu hizi mbili, tunahudumia wateja milioni 32 katika sekta mbalimbali. Tuna mipango iliyowekwa ya kuimarisha mashirikiano ambayo upataji huu hutoa, ili kuunda utendakazi na wepesi kote katika shirika na kuimarisha nafasi yetu ya soko katika masoko haya.

Katika mwaka huo, tulianza mchakato wa ujumuishaji nchini Rwanda baada ya kuunganisha biashara zetu mbili huko. Tangu wakati huo tumehitimisha uimarishaji na uboreshaji wa mfumo mkuu wa benki kwa Benki, ambayo ilikuwa hatua muhimu katika safari yetu ya ushirikiano. Tunatazamia kuwa mfumo ulioboreshwa utaoanisha programu za vituo ili kuunda hali ya utumiaji iliyounganishwa, rahisi na iliyoboreshwa katika sehemu zote kwa mteja.

Pia tulikamilisha upangaji upya wa KCB Capital Limited (KCBCL) na Mdhamini wa Kitaifa na Huduma za Uwekezaji za NBK (NTISL). Upangaji upya huu ulisababisha kuundwa kwa mashirika mawili ambayo yatakuwa katika nafasi nzuri ya kutumia uwezo wao ili kuunda nguvu kubwa ya bidhaa za uwekezaji. KCBCL itabadilishwa jina kuwa Benki ya Uwekezaji ya KCB na itatoa usimamizi wa mali, ushauri, huduma za udalali pamoja na usambazaji wa miradi ya uwekezaji ya pamoja kwa kuzingatia hazina ya soko la pesa.

NTISL ilibadilishwa jina na kuwa Usimamizi wa Mali ya KCB na itaangazia utoaji wa usimamizi wa hazina, wadhamini wa shirika, na huduma za usimamizi wa pensheni pamoja na uundaji wa miradi ya pamoja ya uwekezaji na vitengo vya amana.

> Bodi ya Kundi ilizingatia na kuidhinisha muundo mpya wa shirika katika mwaka huo. Muundo huu unaweka kipaumbele maalum katika kuimarisha utekelezaji katika biashara nzima, kuoanisha majukumu ya biashara ya Kikundi, na kuzingatia upya umakini wa wateja.

Uendelevu

Kufanya kazi kwa njia endelevu ni jambo la msingi kwetu. Upachikaji wa uendelevu katika mkakati wetu umetuwezesha kuunga mkono ubadilishaji wa nishati safi kwa mamilioni ya wateja na pia kurekebisha mazoea yetu ya ndani ili kuhakikisha kuwa tunafanya kazi kwa njia endelevu. Mikopo ya kusaidia tabia nchi/mazingira ni muhimu katika kukabiliana na mabadiliko ya hali ya hewa kwa kuwa matumizi makubwa kwa kiwango kikubwa yanahitajika ili kupunguza uzalishaji, hasa katika viwanda vinavyozalisha kiasi kikubwa cha gesi chafuzi. Ili kutoa ufadhili zaidi kwa mipango hii, tumejiwekea lengo kuu la kuongeza jalada la mikopo ya kusaidia mazingira katika kitabu chetu cha mikopo hadi 25% ifikapo 2025. Mwaka wa 2022, hii ilikua kwa pointi 390 hadi 12.3%. Kupitia dhamira hii tunapanga njia mwafaka ya mustakabali usio na kaboni, huku tukiwasilisha uwezekano wa kukuza ukuaji mkubwa wa uchumi na kuhamasisha ubunifu mpya wa kushughulikia changamoto za sasa.

Kujumlisha hali ya mazingira kwa jalada letu la mkopo na kupunguza matumizi ya rasilimali kutasaidia kufikia lengo hili. Kukuza uwezo kwa wafanyakazi wetu pia ni eneo muhimu la kuzingatia kwetu na vile vile utaratibu uliojaribiwa kwa wakati wa upandaji miti ili kuendesha uondoaji wa kaboni. Tunatumia matawi yetu kushirikiana na shule za sekondari za mitaa na vikundi vya kijamii kupanda na kukuza miti hii katika mikoa yao. Zaidi ya hayo, kupitia ushirikiano huu, Benki inataka kutoa shilingi milioni 500 kwa nia ya kukopesha mipango yenye manufaa ya ukuaji wa miti ya mianzi, maembe na parachichi miongoni mwa nyinginezo kama njia ya kujikimu kimaisha.

Hatari ya mabadiliko ya tabia nchi bila shaka ni hatari kubwa kwa taasisi za fedha. Kwa hivyo, kila mradi ulio zaidi ya shilingi milioni 50 unachunguzwa ili kuangalia madhara yake kwa mazingira na jamii (ESDD), na inajumuisha utoaji taarifa/ripoti kuhusu hatari za tabia nchi. Mwaka wa 2022, tulikagua nyenzo za thamani ya shilingi bilioni 270.4.

> Tuliongeza usaidizi wetu kwa biashara za chini, ndogo na za kati almaarufu (MSME)

Tukiangalia mkazo wetu wa thamani jumulizi, Wakfu wa KCB unaendelea kuleta afueni kubwa katika jamii tunazofanyia kazi, kwa kuongeza programu yetu kuu, 2jiajiri ili kusaidia vijana. Pia tumeimarisha usaidizi wa kibinadamu na mpango wa ufadhili wa elimu.

Mtazamo

Tuliingia mwaka wa 2023 tukiwa na kasi nzuri na tutaendeleza hili na kuhakikisha kwamba tunafanya mabadiliko makubwa katika utamaduni na utendakazi, katika vitengo vyetu vyote vya biashara, vinavyoungwa mkono na dhamira yetu mpya. Licha ya mazingira magumu ya utendakazi, imani kwa watu wetu, dhamira iliyowekwa, uwezo wa kidijitali ulioimarishwa, msukumo katika biashara zetu za kikanda na kuingia kwa TMB, hutufanya tutie bidii bila hofu mwaka huu wa 2023. Ahadi yetu thabiti ya kuzingatia wateja itaendelea kusukuma dira na mkakati wetu. Mtazamo wetu wa kutimiza mkakati wetu katika mwaka wa 2023 utaimarishwa na utekelezaji wa matamanio ya wateja wetu, kupata wateja wapya kwenye benki, uuzaji wa bidhaa mtambuka, kuimarisha misingi ya kidijitali, kuwajibikia ufanisi wa utendaji kazi, usimamizi makini wa ubora wa mali, na kufanya mabadiliko yanayoonekana.

Kwa kumalizia, ningependa kuishukuru Bodi ya Wakurugenzi ya Kundi kwa kunipa fursa ya kuongoza timu zetu zenye uwezo katika Kampuni nzima. Pia ninawashukuru nyinyi, wanahisa wetu, wateja, na washirika wetu kwa imani yenu katika mwaka huu. Ninawashukuru wafanyakazi wenzangu kote katika Kundi kwa kujitolea kwao bila kuchoka kutekeleza malengo ya kimkakati ya KCB na mafanikio yanayoendelea, na mtangulizi wangu Joshua Oigara, kwa jukumu kubwa alilocheza kuweka Kundi kwenye njia nzuri. Ninatazamia kuendelea kwenye njia hii dhabiti ili kutimiza matarajio yetu.

Simba wa KCB ataendelea kunguruma, na kishindo kitakuwa kikubwa na kisicho na ubishi, Kwa ajili ya Watu. Kwa Ubora zaidi.

Paul Russo, EBS
Afisa Mtendaji Mkuu wa Kikundi

Executive Committee

Paul Russo, EBS
Group Chief Executive Officer

Lawrence Kimathi
Group Finance Director

Annastacia Kimtai
Managing Director KCB Bank Kenya

Japheth Achola
Group Director Human Resource

Bonnie Okumu
Group General Counsel

John Mukulu
Group Chief Risk Officer

Charles Langa't
Group Internal Auditor

Dr. Leonard Mwithiga
Group Director Shared Services

Rosalind Gichuru
Group Director Marketing & Communications

Simon Mbogo
Ag. Group Director Technology

Cosmas Kimario
Ag. Group Regional Businesses Director

Group Finance Director's Report

The Group achieved a record performance in 2022 propelled by recovery in economic activity across the region. According to the International Monetary Fund (IMF) estimates, the countries we operate in posted an average real gross domestic product (GDP) growth of 5.2% in 2022. South Sudan, Democratic Republic of the Congo (DRC), Rwanda and Kenya led the charge, outperforming the regional average. Inflation was a big concern across the region, with most regulators increasing interest rates in a bid to control it. We also witnessed major pressure on regional currencies especially in Kenya, which coupled with a shortfall in supply of hard currency exacerbated the situation.

Performance overview

KCB Group Plc recorded a 36.4% growth in total assets to close the year at KShs. 1.55 trillion. This growth was driven by both organic performance across our businesses as well as acquisitions. Profit after tax recorded a 19.5% rise to KShs. 40.8 billion for the full year ending December 2022 on higher funded and non-funded income streams. The contribution to overall assets and profit before tax by other subsidiaries excluding KCB Bank Kenya increased to 37.5% (2021: 27.5%) and 17.0% (2021: 13.9%) respectively.

Key figures & indicators

Parameter	FY 2021 (KShs)	FY 2022 (KShs)	Change
Profit after tax	34.2 billion	40.8 billion	19.5%
Revenues	109.3 billion	128.2 billion	17.3%
Total assets	1.14 trillion	1.55 trillion	36.4%
Customer loans	675 billion	863 billion	27.8%
Customer deposits	837 billion	K1.135 trillion	35.6%

Revenues increased by 17.3% to KShs. 128.2 billion, mainly driven by non-funded income which grew 44.0%. Net interest income grew by 11.7% from an increase in interest income, supported by earning assets and offset by increase in interest expenses due to higher costs of borrowing. Earnings per share increased by 19.8% to close the year at KShs. 12.71.

> "The contribution to overall assets and profit before tax by other subsidiaries excluding KCB Bank Kenya increased to 37.5% and 17.0% respectively.

Solid balance sheet growth

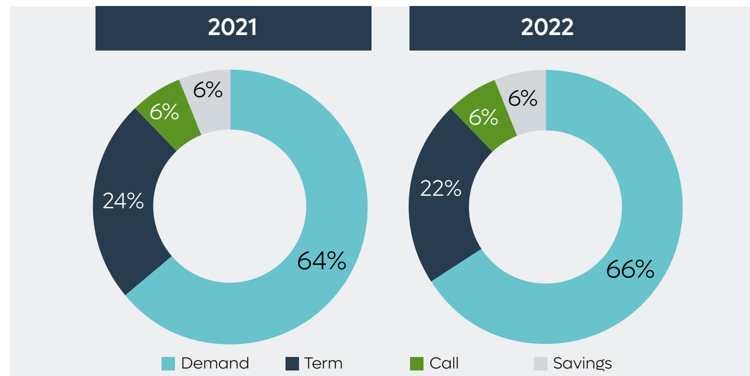
Acquisition of Trust Merchant Bank in DRC, which was completed in December 2022 contributed KShs. 210 billion to the Group's asset base. This coupled with organic growth of KShs. 204 billion, brought total assets in 2022 to KShs. 1.55 trillion. All our bank subsidiaries registered impressive growth save for National Bank of Kenya. The table below highlights the performance:

Subsidiary	Y-o-Y growth
KCB Bank Kenya	18%
KCB Bank Tanzania	45%
KCB Bank Uganda	45%
KCB Bank Burundi	33%
BPR Bank Rwanda	25%
KCB Bank South Sudan	20%
National Bank of Kenya	(3%)

Our large branch, ATM and agents network in the region facilitated growth in customer deposits which surpassed one trillion shillings for the first time to close at KShs. 1.14 trillion. The deposits were utilized to fund interest earning assets which closed the year at KShs. 1.16 trillion.

We increased debt leverage in the balance sheet by injecting USD 150 million debt in 2022. This facility is being utilized to fund our green book as we drive to fulfill our sustainability agenda of increasing our green lending book to 25% by 2025.

Customer deposits by type



5 year-summary statement of financial position

Amounts in KShs M	2018	2019	2020	2021	2022	CAGR
Assets						
Government and other securities	120,070	164,866	210,784	276,293	295,423	22%
Net loans and advances to customers	455,880	539,747	595,255	675,481	863,268	15%
Property and equipment	11,007	13,132	14,629	16,993	26,618	21%
Other assets	127,356	180,827	167,142	170,905	368,721	29%
Total assets	**714,313**	**898,572**	**987,810**	**1,139,672**	**1,554,030**	**19%**
Liabilities						
Customer deposits	537,460	686,583	767,224	837,141	1,135,417	18%
Lines of credit	42,552	42,184	56,700	85,378	156,397	43%
other liabilities	20,640	40,064	21,463	43,646	55,939	30%
Total liabilities	600,652	768,831	845,387	966,165	1,347,753	20%
Total equity	**113,661**	**129,741**	**142,423**	**173,507**	**206,277**	**14%**
Total liabilities and equity	**714,313**	**898,572**	**987,810**	**1,139,672**	**1,554,030**	**19%**

Value added statement

Amounts in KShs M	2018	2019	2020	2021	2022	CAGR
Value added						
Interest income, fees, commission, and other revenues	89,253	102,522	116,899	134,042	159,626	13%
Interest paid to depositors and cost of other services	(32,916)	(39,345)	(62,348)	(51,681)	(59,843)	13%
Interest paid on borrowings	(1,986)	(1,954)	(1,953)	(3,448)	(5,415)	21%
Wealth created	**54,351**	**61,223**	**52,598**	**78,913**	**94,368**	**13%**

Distribution of wealth	2018		2019		2020		2021		2022	
Employee salaries, wages, and other benefits	17,007	31%	19,459	32%	20,451	39%	25,070	32%	30,422	32%
Government tax	9,864	18%	11,732	19%	6,115	12%	13,642	17%	16,494	17%
Shareholders dividends	10,731	20%	11,099	18%	3,213	6%	9,640	12%	6,426	7%
Retained earnings and non-controlling interest	13,264	24%	14,066	23%	16,391	31%	24,134	31%	33,809	36%
Depreciation and amortization	3,146	6%	4,386	7%	5,917	11%	6,028	8%	6,615	7%
Social capital - KCB Foundation	339	1%	481	1%	511	1%	399	1%	602	1%
Wealth distributed	**54,351**	**100%**	**61,223**	**100%**	**52,598**	**100%**	**78,913**	**100%**	**94,368**	**100%**

Asset quality

We registered year on year reduction in nonperforming loans (NPL) across our subsidiaries except for KCB Bank Kenya whose corporate banking book was severely impacted by downgrades in the roads, hospitality, and manufacturing sectors. Most of these downgrades were because of the lag impact of COVID-19 and anticipatory effects of the Kenyan General Election in August 2022. Total NPL stock closed the year at KShs 161 billion down from a peak of KShs 173 billion in June 2022, the reduction attributed to concerted efforts to rehabilitate the loans and, in some cases, make recoveries of amounts owing.

All the nonperforming loans are adequately collateralized and/or appropriate credit loss taken in the current financial statements, however prudential guidelines require that collateral values are discounted over a period of five years post downgrading leading to an increase in statutory loan loss reserve in the balance sheet. We have in place a robust strategy to bring down NPLs which will reduce the loan loss reserve as well as increase our coverage ratio.

Subsidiary NPL ratios	2021	2022
KCB Bank Kenya	15.9%	19.6%
NBK	31.6%	21.3%
KCB Bank Tanzania	2.7%	2.2%
KCB Bank South Sudan	29.6%	10.1%
KCB Bank Uganda	5.4%	3.6%
BPR Bank Rwanda	7.5%	4.0%
KCB Bank Burundi	1.8%	1.5%
TMB	-	13.4%

Adequate capital levels

Capital ratios across our subsidiaries, save for NBK are comfortably above the minimum requirements and remain adequate to support growth of risk weighted assets. In 2022, the Group's total capital grew to KShs 214 billion, representing a total capital to risk-weighted assets ratio of 17.1%. The core capital to total risk-weighted assets closed the period at 13.9%.

The capital headroom over regulatory minimum for our largest subsidiary KCB Bank Kenya dropped to 40 and 70 basis points for core and total capital adequacy requirements respectively owing to a special dividend declared to fund inorganic growth. Our internal capital adequacy assessment process (ICAAP) forecasts a good improvement in both ratios within the first half of 2023.

NBK was compliant with core capital requirement but remained 100 basis points below total capital requirement. The Group is exploring options to remedy this within the first half of 2023 to enable the subsidiary meet regulatory requirements and support its growth agenda.

Subsidiary total capital ratio	2021	Minimum requirement	2022
KCB Bank Kenya	20.2%	14.5%	15.2%
NBK	14.3%	14.5%	13.5%
KCB Bank Tanzania	16.6%	14.5%	15.9%
KCB Bank South Sudan	61.0%	12.0%	38.0%
KCB Bank Uganda	15.7%	14.5%	18.9%
BPR Bank Rwanda	21.3%	15.0%	19.4%
KCB Bank Burundi	39.5%	14.5%	35.0%
TMB	-	10.0%	12.1%

> We registered year on year reduction in nonperforming loans across our subsidiaries except for KCB Bank Kenya whose corporate banking book was severely impacted by downgrades in the roads, hospitality, and manufacturing sectors.

Sustaining superior shareholder returns

Due to the remarkable performance in the year, our return on equity remained among the highest across the banking sector counters at the Nairobi Securities Exchange. The ratio grew by 60 basis points to 23% even as the Group continued to make investments across its subsidiaries in the year. The solid performance saw the earnings per share grow by 19.8% to KShs. 12.71. In line with our consistent dividend payout history, the Board recommended a final dividend of KShs 1.00 per share for your deliberation. This final dividend together with the interim already paid will bring the total payout to KShs 6.4 billion for the year.

We shall continuously endeavor to strike the right balance guided by our dividend policy as we appreciate that most of our shareholders take a long-term view and thus recognize the interplay between business growth and an attractive dividend yield.

> In line with our consistent dividend payout history, the Board recommended a final dividend of KShs 1.00 per share for your deliberation. This final dividend together with the interim already paid will bring the total payout to KShs 6.4 billion for the year.

	Earnings per Share	
Our solid performance saw the earnings per share grow by 19.8%	2021 KShs. 10.61	2022 KShs. 12.71

Regional businesses and other subsidiaries

Growing the contribution of subsidiaries outside KCB Bank Kenya to the Group's profits is one of our strategic goals. Several actions were geared towards this goal in 2022. In Kenya, we reorganized our investment and wealth management businesses to better position them to capitalize on the available opportunities in the market. In Rwanda, we concluded the amalgamation of our businesses leading to the creation of the second largest bank in the market.

During the year, we also made an entry into DRC with the acquisition of an 85% stake in Trust Merchant Bank. This acquisition gives us strong headroom to accelerate our growth ambitions to deliver better value for our shareholders and deepen financial inclusion. It also provides us with an opportunity to rely on the immense trade opportunities that comes with the admission of DRC into the East African Community.

KCB Group can now unlock the large trade opportunities that exist within the various trade routes cutting across from the Indian to the Atlantic Ocean, teeing us up very well to deliver significant increase in contribution made by subsidiaries outside of Kenya.

Outlook

2023 will mark the final year of our beyond banking strategy and we are optimistic about surpassing the set deliverables. We shall continue to embed and bring to life our new purpose **FOR PEOPLE. FOR BETTER.** guided by our three core values of closer, connected, and courageous. This will set the foundation to relentlessly focus on customer obsession, reduce our nonperforming book and extract value from all our acquisitions in Kenya, Rwanda, and DRC.

I remain optimistic that the prospects in the operating environment will improve and that we are well positioned to capitalize on the available opportunities and continue with our track record of delivering superior and sustainable shareholder returns.

Lawrence Kimathi
Group Finance Director

Our Strategic Ambitions

Our Beyond Banking strategic goals

2022 marked the penultimate year for our three-year Beyond Banking strategy. Through this strategy, the Group seeks to deliver exceptional customer experience and drive a digital future.

The strategy is anchored on four thrusts namely;

1. Customer first, with leading value propositions
2. Step change in efficiency and productivity
3. Digital leader and digital to the core
4. Scale to achieve regional relevance

The delivery of these aspirations is enabled by putting in place modern information technology architecture, processes, capabilities, and talent; enhanced end to end credit and risk management; and rigorous performance management with enabling organisation structure.

Below is a detailed review of our performance on the four thrusts, detailing our progress over the period.

1 Customer First, with Leading Value Propositions

Driving customer obsession

The Bank relies on inculcating a customer obsession culture as a key pillar to steer growth in the medium term. We strive to delight our customers in all our interactions and ensure that they get quality service across all touchpoints. At KCB, customer excellence is at the core, and we have opened channels to take feedback that informs our interactions and development of relevant solutions, changes to processes and service delivery. During the year, we also banked on our adopt a branch initiative where senior management visited branches to get a first-hand experience on customer service standards. This was greatly appreciated by staff, customers and enhanced visibility and commitment to champion customer excellence.

As a result of the above approach, we were able to act towards customization of the structure of account statements to align to different needs based on customer segments; reviewed the onboarding process of KCB One Till by devolving it to branches to reduce customer effort and improve turnaround time; automate the locking and unlocking of customers' accounts to address gaps on the recovery process for mobile loans and rollout hakikisha on USSD to mitigate against misrouted mobile banking transfers.

Our bold customer promise, which is displayed in all our branches, sets the commitment to deliver exceptional and seamless service and gives customers a way to raise their concerns when their expectations are not met. We also operate a 24-hour multichannel contact centre to enable customers reach us whenever they need support. In addition, we communicate with our customers in a proactive and timely fashion whenever there are planned or unplanned service disruptions.

To champion the provision of exceptional customer experience, we have in place robust customer focused cross functional teams including a customer excellence council, customer effort to serve task force, and a customer convenience squad. We also leverage data and analytics to drive rigor in addressing top customer pain points. Moreover, our customer excellence team is involved in the review of products, processes, systems, and initiatives to ensure the customer journey and impact on experience is timely addressed.

Sustaining customer satisfaction

One of our key focus areas in 2022 was to reduce customer effort to serve (CES) by addressing challenges that had previously caused customer pain. Key initiatives on this front focused on the following:

- Leveraging robotics in reconciliation and reversals to resolve transaction failures on a real-time basis.
- The migration of KCB Mpesa and KCB mobile banking to the VOOMA platform which greatly improved system efficiency and offered better user experience to the customer.
- Consistent and proactive reporting of top customer issues to drive accountability and ownership.
- Streamlining of the incident management process to create a standard and predictable road map to customer management and recovery when systems fail.
- Automation of the process to update customers' credit reference listings which saw customer requests resolved within 12 hours down from the previous average of 4 days.
- Enhancement of customer verification through *hakikisha* on USSD to mitigate against misrouted payments.
- Enhancement of the cash deposit machines to process more deposits and improve uptime.
- Improvement of customer journeys through SMS notification on loan processing status and cheque payments.

These initiatives drove the improvement of CES to 20%, down from 26% in 2021. At the same time, our net promoter score (NPS) improved to 56, up from 53 in 2021.

To further enhance customer satisfaction, we will continue to deploy robotics for repetitive processes, more self-serve capabilities for our customers and leverage chatbots to address customer concerns in a timely manner. In addition, we seek to enhance product knowledge training for staff to ensure preparedness to provide support to customers when new products are being launched.

Net Promoter Score		Customer Effort to Serve	
2021	2022	2021	2022
53	56	26%	20%

Leveraging technology to deliver customer excellence

The Group continued with the quest to scale up its digital platforms and services. Infrastructure investments made and planned for within the year focused on enhancing customer experience and ensuring that the systems are resilient to accommodate business requirements. A generic Host to Host platform was tested and implemented, leading to a reduction in lead time in corporate payments integrations to a few hours. This subsequently increased the non-funded income that flows in by way of payment fees and commissions.

We also rolled out innovative tech-based solutions to address customer needs. This included solutions such as installing remote cheque capture technology in premises of customers who process substantial number of cheques based on their line of business. This solution has continued to enhance our product offering. For instance, one of our large manufacturing clients processes an average of KShs. 100 million daily from just one cheque capture machine. This is an attestation that when product development meets customer needs, value is derived for both the customer and the Bank. Through this solution, we have ringfenced the customer's business through a captive product that meets their needs.

To serve the growing digital channels customers, the Group increased the workforce in its technology unit's critical departments including cybersecurity, infrastructure, and business solutions. This, coupled with upskilling and training of the existing personnel improved the quality and speed of execution in business changes thus driving our customer obsession agenda.

Delivering customer centric solutions

At KCB we consider every customer relationship to be unique and offer tailor-made solutions to address individual customer needs. In our personal banking segment, we have products that serves all ages, from our cub accounts for minors to non-checkoff loans on pension earnings for the elderly. Over the years, we have registered significant uptake across all these solutions, thanks to their ease of access and use, affordability, and excellent customer service.

To better serve more priority customer segments, we introduced a premium non-checkoff loan product for our elite customers. This product registered substantial uptake in its debut year, growing the loan book to over KShs. 3.1 billion with a very low nonperforming ratio of 1.7%. This revamped proposition included a higher unsecured loan of up to KShs. 6 million, embedded insurance cover, credit cards on account opening and an overdraft facility secured by treasury securities processed through our investment bank.

Keeping our customers safe online

Cybersecurity remains a key enabler of ensuring digital trust and effective management of risks arising from the usage of digital technologies. The Bank continues to invest in people, processes, and technologies to maintain and improve controls that ensure the technology used by the Bank remains trustworthy and secure. All systems are engineered by following the defense-in-depth architecture principles where multiple, redundant defensive mechanisms are used across the enterprise. If one mechanism fails, another one steps in immediately to thwart any attack. This architecture increases the security of the system by addressing many different attack vectors. Some of the measures that keep KCB Group systems, and ultimately our customers safe include the following:

- Continued enforcement of a robust cybersecurity governance framework
- Maintenance of effective cyber defense strategies
- Subjecting digital systems to a robust cybersecurity assurance rigor
- Improved maturity in cybersecurity incident response capabilities
- Continuous efforts in enforcing a strong cyber risk-aware culture among employees and third parties.

We maintain a strong cybersecurity governance framework which guides staff and partners in their interaction with the Bank's digital systems. The governance framework is continually aligned with industry leading cybersecurity standards and best practices to address the ever-changing threat landscape and emerging cyber risks.

We have also put in place a rigorous campaign to educate customers on how to keep their account information and PIN safe from fraudsters. We run such campaigns as "PIN yako siri yako" (Your PIN is your secret) on a regular basis on the Bank's official communication channels which aims to ensure customers are not engineered to share their account information with third parties and can easily identify impersonators when they receive calls from unofficial channels. This is done through bulk messaging, e-shots on social media and customer education at the point of onboarding.

Furthermore, we have in place a stringent customer authentication and identification criteria before sharing any account information from the Bank to safeguard against breach of confidentiality of customer information. In addition, we conduct regular fraud and cyber security awareness trainings for our staff.

We maintain a strong cybersecurity governance framework which guides staff and partners in their interaction with the Bank's digital systems

Growing women owned businesses

One of our key milestones in 2022 was the unveiling of our MSME proposition tailor-made for Female Led and Made Enterprises (FLME). Through this platform, we seek to fill the funding gap faced by women entrepreneurs by creating solutions that are flexible, accessible, and affordable.

The Bank has committed to disburse KShs. 250 billion through this proposition over the next five years. Our aim is to grow the base of female entrepreneurs specifically through offering more unsecured lending to address the challenges which most female customers cite as the major impediment to financing.

The rollout of the proposition followed a successful pilot which started in ten branches. Through the pilot, we were able to rejig our products and services to meet the needs of women customers with a large focus on relationship management, enhanced credit methodology, targeted solutions, and reduced turnaround time.

Over the pilot period, we managed to grow the proportion of loans advanced to female entrepreneurs from 9% to 22%, improved segment NPS from 2% to 61% and achieved a low nonperforming loans ratio of less than 3%.

Banking aligned with our customers' values

2022 marked the eighth year of operations for our Sahl banking business. Over this brief period, the business has achieved commendable growth. We now serve over 90,000 customers across our branches accessing Shari'ah compliant banking products, a year-on-year growth of 31%. As a result of this growth, the Sahl financing book grew by 69% to KShs. 11 billion, while customer deposits increased by 52% to KShs. 15.4 billion.

Our Shariah Advisory Council has continued to play a pivotal role in Sahl banking, ensuring that best practices are followed, and that our products and services meet Shari'ah compliance requirements. The Council maintains close oversight of the operations of the unit through quarterly meetings and engages customers on matters of Shari'ah compliance which has helped in boosting customer confidence.

In our effort to continuously upskill, the council members attended a five-day training session in Bahrain organized through the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), a leading standard setting body for Islamic financial institutions. The members also attended an Islamic banking conference giving them an opportunity to interact with scholars from Islamic banks and institutions and gain valuable insight in developments in areas of Shari'ah governance and product development.

During the year, Sahl banking unit disbursed KShs. 2.1 million in charitable donations towards payment of tuition fees for needy students and an additional KShs. 5 million in food aid for households adversely affected by drought in Kenya.

In 2023, we plan to undertake more customer engagement forums and rollout more Shari'ah compliant products to meet customer needs and grow the business.

Market leader in corporate banking

Our corporate banking division provides a full suite of financial products and services targeted at the middle to large sized corporates and public sector entities. We serve a diverse clientele with a foothold in all key sectors that power the economies in the region. To improve service to our clients, we reorganized our units along clear sectoral lines of manufacturing, industrials, infrastructure and energy, financial services, and the public sector to drive both technical and financial leadership.

Being the dominant corporate banking business across East Africa with over KShs. 407 billion in assets, our focus continues to be on the delivery of exceptional client solutions. During the year, we heightened our focus on key sectors, helping to power more businesses to bounce back better and drive economic growth. We also registered strong growth momentum especially in trade finance and working capital loans enabling clients to meet their growth ambitions.

In addition, we enhanced automation and digitization of key solutions such as trade finance, investor services and cash management to better meet our clients' needs. To anchor customer excellence as we deliver these products, we embedded our refreshed purpose and set of values to create a shared sense of working to drive collaboration and teamwork.

Our trade finance solutions continue to serve a significant share of our market further bolstered by our renewed focus on import financing in the energy sector and working capital solutions for the fast-moving consumer goods sector. We also serve a significant share of the foreign exchange market, with further growth being registered in volumes transacted and revenues for the Bank.

To further grow our market share, we rolled out innovative solutions in the year to attract both new to bank customers as well as avail more cross selling opportunities. In the energy sector, we repositioned our structured trade finance product to avail financing to fuel importers in the Open Tender System (OTS) helping businesses and households to meet their energy needs.

Even as we support our clients to meet their current energy needs, we are a key player in the quest to lead the transition to clean energy. On this front, we partnered with an e-mobility company in the transportation sector to avail flexible financing for purchase of electric vehicles in Kenya.

During the year, we heightened our focus on key sectors, helping to power more businesses to bounce back better and drive economic growth

Our trade finance solutions continue to serve a significant share of our market further bolstered by our renewed focus on import financing in the energy sector and working capital solutions for the fast-moving consumer goods sector

Deepening products reach to new to bank customers

Signing up new to bank customers was one of our key focus areas in the year. To achieve this goal, we aligned our sectors to ensure optimal coverage of areas with interdependent themes like infrastructure & energy and agriculture & food manufacturing, to ensure better focus which enabled a deep understanding of the clients' industry, strategy, and business activities. This approach allowed us to develop holistic client and industry solutions that are scalable. Through this initiative:

1. We made a re-entry into the financing of the OTS for all white fuel purchases in Kenya. Consequently, we financed over USD 900 million of fuel imports by four different oil marketing companies, three of them being new to bank clients.
2. We supported the financing of the supply of fuel and wheat into the region through strategic partnerships with regional banks and leading commodity traders. This approach opened relationships with new commodity traders who previously worked primarily with international financial institutions.
3. We participated in the financing of a leading Kenyan telecommunication firm's expansion in the region as a member of the consortium of lenders.
4. We supported industrialization in Kenya with the financing of the largest ultra-modern integrated steel plant in East Africa and second largest in Africa generating at least 2,000 jobs directly and reducing the country's import bill for steel.
5. We financed over KShs. 2 billion of new affordable housing projects and a key driver towards achieving SDG 11 on sustainable cities and communities.
6. We supported county governments through integrated fees collection services leveraging the enhancements in the cash management solutions and funding of select initiatives in education, agriculture, and youth development.

Looking ahead to 2023 and beyond, we will continue to execute our strategy on customer obsession to offer best-in-class holistic and purpose-led corporate financial solutions. We seek to further grow our market share and deepen products reach through collaboration with our partners across the region and within our various divisions and subsidiaries in the Group.

We also seek to increase our participation in solutions provision in East Africa, providing a platform for our customers looking for scale in the quest for regional expansion. At the same time, we will continue to deepen our digital solutions and heighten our focus on credit risk management and resolution of nonperforming loans.

2 Step Change in Efficiency and Productivity

Leveraging data analytics

Data is an essential valuable corporate asset with real and measurable value. Throughout the year, data science has been used to support business growth and mitigate risks. Data analytics has enabled business teams to better match customer needs to products. They have also driven revenue growth through capitalizing on cross selling opportunities such as availing of top up loans and prescoring customers for credit. We also utilize artificial intelligence to understand customer behaviours enabling us to nurture a healthy asset quality. In addition, we leverage data analytics to drive rigor in solving top customer pain points leading to enhanced customer satisfaction.

Digitization and automation of key processes

The Bank is anchored on sound processes that are guided by policies and procedures. In an everchanging environment, it is imperative to remain relevant and adapt to evolving customer needs. We have over the years migrated a significant number of services to our digital banking channels which now handle the bulk of our transactions. In addition, we have adopted robotic process automation (RPA) to perform functions that are bulky in nature, repetitive and need minimal human judgment and intervention. There are several robots deployed in the Bank accruing the following benefits:

- Notable reduction in turnaround time for mobile wallet to bank accounts reversals from days to within two hours while also fully eliminating losses incurred through manual reversals.
- Staff morale and innovation has been improved because of process automations with staff now able to dedicate time to more value adding tasks. For example, it is now possible to identify transactions that have been initiated by customers but have not been processed by the Bank systems and take appropriate steps to rectify failures.
- Reversals that were previously processed by two departments are now handled only in one department with no additional staff count.
- RPA has also eliminated the risks which hitherto faced the complicated credit reference bureau (CRB) mass update process and reduced the time taken to execute CRB mass updates from five hours to an average of 11 minutes.

In addition, processes that involved physical movement of documents from the branches to head office have been digitized and onboarded on business process manager (BPM), a workflow that comes with electronic archival of documents. The use of this BPM system has led to improved turnaround time, clear visibility of applications at each step of processing and ability to store all data in one system.

Building a true shared service function

The Group continued with the integration process for back office shared services for the recently acquired subsidiaries. NBK's operations and customer excellence services are rendered from our Group head office to leverage the robust systems at the Group's disposal to provide exceptional customer experience. We have also optimized transaction reconciliation processes across the Group by leveraging a shared reconciliation tool. In addition, we realized cost savings through onboarding of the same instance of the reconciliation system for BPR and NBK as well as from reduced provisions due to controls over noncompliant suspense accounts.

With the unification of most of the technology, our shared services unit can take up traffic from various subsidiaries and cost effectively deliver within the required timelines. Best practice learnt over time in reconciliation and governance of various suspense accounts is shared across the subsidiaries. Moreover, loading of subsidiary accounts centrally on the reconciliation tool eliminates errors and improves operational efficiency. We also leverage the strength of central sourcing for contact centre technologies. Thus, different subsidiaries only buy into modules of what they require.

In our shared services function, we implemented a robust target operating model. This model created six centres of excellence namely payments, customer & product, supply chain, corporate security, re-engineering, and control & governance. These centres enabled us to realize synergies and optimize processes and systems. This had led to cost savings and improved productivity as the Bank can now deliver the shared services using less headcount. In 2021, 139 staff from our shared services unit retired or came to an end of their short-term contract without the need for replacement and a further seven in 2022.

Business growth and disruption need agility within our operations teams to anticipate capacity resource requirement to deliver within the required timelines. To bolster our readiness, we undertook the following key initiatives in 2022.

- Commenced readiness for transition to ISO20022 for cross border SWIFT payments in November 2022 and went live in February 2023, a month ahead of industry go-live date.
- KCB joined the SWIFT GPI member service, which brings the benefits of high-speed cross border payments; traceability and full transparency over where a payment is at any given moment; and full visibility on processing fees, exchange rate costs and processing times enabling the Bank to provide customers with seamless cross border payments.
- The governance and controls unit has been instrumental in supporting business units to roll out new products with minimum challenges by being part of the process, defining accounting entries and ensuring prompt reconciliation on new products.

Looking forward, we seek to drive cost optimization through fulfillment and actualization of the Group shared services model. We shall also scale operating efficiencies through robotic process automation and digitization of workflows. In addition, we seek to simplify and standardize key performance indicators and procedures across the Group and extend the BPM system to Burundi, South Sudan, and Tanzania to digitize the customer onboarding processes. We will further drive centralization of payments, reconciliation, and loan disbursements as well as focus on simplifying customer journeys, automation of basic enquiries, drive first time resolution at all touch points and ensure swift execution.

System reliability

We have been making great strides investing in modernizing both our hardware and application infrastructure to improve capacity and systems capability. This has resulted in more customers opting to conduct their transactions with seamless ease and security on our digital channels. This is supported by our work to ensure round the clock availability of both the core and auxiliary banking systems, achieving an uptime of 99.73% in 2022.

During the year, to further bolster our capabilities, we embarked on building a virtualized compute infrastructure. This introduced high performance servers for our virtualized environment to meet the demand of the growing customer base especially for the digital services. The infrastructure is also consolidated within the datacenters reducing power and space utilization.

Deployment of High-Performance Infrastructure at BPR and KCB Bank Kenya also provided an agile platform to run the upgraded core banking system and containerized workloads. This not only improves applications security but also guarantees higher systems uptime leading to enhanced customer satisfaction.

BPR Bank Rwanda's core banking system upgrade was a major project in 2022. It was a key milestone in the BPR Bank Rwanda Integration program. The project commenced in early 2022 and went live in January 2023 through a seamless cutover process alongside critical channel systems integrations to the core banking system. The upgraded system consolidated and harmonized channels systems and applications to create a unified, seamless, and improved customer experience across all customer touch points. With new and enhanced functionalities, the upgraded system addresses current and future customer and business demands. It positions BPR Bank Rwanda as a modern bank, responsive to the ever- changing customer needs.

BPR Bank Rwanda's core banking system upgrade was a major project in 2022. It was a key milestone in the BPR Bank Rwanda Integration program. The project commenced in early 2022 and went live in January 2023 through a seamless cutover process alongside critical channel systems integrations to the core banking system

Step change in productivity

We commenced the implementation of HRMS Cloud Solution which will result in automation of the performance management process, allow for 360-degree feedback for management staff, and result in a simplified performance management tool. The implementation of HR shared services has also consolidated common services to the shared services centre, eliminated duplication and redundancies, and optimized resource allocation and productivity leading to enhanced service delivery.

The Group also embedded a talent management framework to build a talent bank and ensure business continuity. We successfully deployed a uniform learning management system which has given our French speaking colleagues the opportunity to undertake e-learning lessons in French. We have invested in building specific skills of business teams to effectively understand our customers and offer them solutions that meet their needs.

Looking ahead, we will focus on culture transformation for our staff in alignment with our new brand purpose and values. This will drive customer centricity through customer obsession and swift execution and support the business achieve full potential in mergers and acquisitions by building a true Group business. In addition, we seek to strengthen the rigor around talent management practices and framework and deploy individualized development initiatives based on the growth aspirations of the Bank.

The Group also embedded a talent management framework to build a talent bank and ensure business continuity

3 Digital Leader and Digital to the Core

Offloading transactions to digital channels

Our digital channels handle the bulk of our transactions thus freeing up branches to drive customer excellence, sales and manage relationships. These channels comprise of mobile banking, internet banking, agency outlets, merchants POS, and ATMs. In 2022, 99% of our transactions by number were conducted via these non-branch channels. To support this level of usage, we ensured round the clock system reliability and robust security.

The Group has heightened its focus on digital channels deepening and innovation as part of our beyond banking aspirations. In 2022, across our banking subsidiaries, we made significant investments in resources including people and technology infrastructure to drive innovation and digital transformation processes. Efforts have been deployed towards creating necessary agility while building technical capabilities to drive innovation and digital banking transformation at required scale.

More than ever, there is increased understanding of the importance and urgency of digital transformation, from the backend through to customer-facing products and services. This is with full recognition of customers' increased demand for innovative digital offerings and need for improved operational efficiency. Deepening of usage on these channels saw the number of transactions grow by 47% to 713 million during the year with a value of KShs. 5.4 trillion, a 30% year-on-year growth. At the same time, the number of transactions processed at our branches reduced by 10% to 10 million, but the value increased by 6% to KShs. 4.4 trillion, a pointer to the larger ticket size of transactions processed by branches.

Convenience through mobile banking

Mobile banking occupies the pole position as the channel with significant preference by our customers. Currently, for every five transactions conducted via our network, four are on mobile. We have made great strides investing in modernizing both our hardware and application infrastructure to improve capacity and ensure system reliability.

Through our robust mobile banking channel, customers can conveniently pay bills and securely transfer funds between their mobile wallets and bank accounts. The volumes transacted on this platform grew by 29% in 2022 to reach an all-time high of KShs. 2.75 trillion. Our mobile platform also offers innovative solutions to enable our customers pay, borrow and save with unmatched convenience.

On the payments front, the Bank had an exciting 2022 driven by our one till proposition and the lipa na KCB (pay with KCB) campaign. We leveraged on the waiver of fees between mobile wallets to support merchant payments direct to bank accounts via till numbers. This enabled us on-board a significant section of the market who adopted this cost-effective method to safely collect payments. We facilitated the collection of KShs. 63 billion during the year and issued over 100,000 tills being used by close to 7 million unique users.

The one till proposition drove deposit mobilization due to its convenience and affordability. We then sought to create stickiness by offering credit lines based on the cash flow tied to this product. Our intent in 2023 is to expand our ecosystem play to generate a strong network of merchants and agents to create a circulatory best in class experience for our customers.

We believe that the future in this space lies in not only building solutions that make it more convenient for small businesses to scale their trade, but also by leveraging access to working capital through mobile, with no collateral requirements and at an affordable price. We also seek to start driving new opportunities in areas like the gig economy to deepen the usage of this solution.

Towards the end of the year, mobile banking charges which had been waived during the COVID-19 period were reinstated. Although the revised charges are much lower, they provide a good non funded income line for the Bank to earn a return on investment that has been made to bolster this channel over the years. However, to further drive usage, mobilize deposits and support our customers especially small businesses, KCB opted to maintain the waiver of charges for transfer of funds from mobile wallets to KCB accounts. This applies to both individual customers and businesses.

Mobile lending has continued to post significant growth over the years. We have several mobile lending products to serve various customer segments. These are KCB Mobile loan for KCB customers, Kopa float for agents and Retailer financing for merchants. We are also partners in KCB Mpesa and Fuliza. Through these various mobile lending products, the total value of mobile loans disbursed grew by 23% to KShs. 193 billion in 2022. In December, we were selected by the Government of Kenya to deliver its flagship financial inclusion product dubbed Hustler Fund. The fund is a government initiative to provide affordable micro credit to the underserved segments of the economy.

The year saw the rollout of regulations for previously unregulated digital financial providers. This was a much-welcomed move aimed at regulating lending in the digital space and creates structures to protect consumers. The regulation helps to drive support for better education in financial management and responsible borrowing.

Progress on alternative channels

In the year, we added more services to our internet banking platform as part of the endeavor to avail more self-serve capabilities to our digital channels. These included the ability to fix savings with attractive interest rates, bill payments and setting up of standing orders. These additional services along with the continued adoption by customers, saw the elevation of internet banking to be the second most preferred digital channel. The value of transactions processed through this channel grew by 61% to KShs. 1.37 trillion, crossing a trillion shillings for the first time.

Our ATM network also continued to play a pivotal role in deposits mobilization supported by improved uptime and capacity across our recyclers and cash deposit machines. In the year, 75% of the value of ATM transactions were cash deposits. The value of these deposits grew by 29% in the year to KShs. 323 billion. At the same time, a waiver of merchant joining fees coupled with the continued resumption of business activities led to a 53% growth in the volumes transacted across our point-of-sale terminals to KShs. 103 billion.

Our agency outlets processed KShs. 568 billion worth of transactions, a 5% drop from the previous period. To support these agents, the Bank rolled out a Kopa float facility. This is an overdraft facility which enables KCB and telco mobile money agents to purchase float even when they have insufficient funds in their bank accounts. We are banking on this initiative to drive volumes at our agency sites. In 2022, we disbursed KShs. 2.4 billion to agents through this product.

Customer safety on digital channels

Cybersecurity continues to be a key concern in the financial sector, more so in the digital space. The Bank has robust systems and a suite of partners to ensure that our customers transact safely on our digital channels. We also review every platform that the Bank partners with very rigorously by running various solutions such as vulnerability assessment and penetration tests with highly accredited firms.

Attached to a robust governance process, these tests including war gaming brute attacks to test the systems, are some of the mitigations in place to drive effective monitoring. We are also leveraging artificial intelligence driven fraud detection tools to detect suspicious patterns in real time and flag them for quick decision-making to protect customers. We also run regular communication campaigns to sensitize our customers on how to secure their data and confidential information like PINs and passwords.

The Bank has robust systems and a suite of partners to ensure that our customers transact safely on our digital channels

4 Scale to Achieve Regional Relevance

The Group seeks to build a scale to match the meaningful role we purpose to play in our region. To achieve this ambition, we invest in initiatives to drive organic growth in our existing subsidiaries while also pursuing strategic mergers and acquisitions in the region that fit within our strategy. Through this goal, we plan to raise the contribution of profit before tax from subsidiaries outside of KCB Bank Kenya. In 2022, profit before tax from these subsidiaries grew by 47% to KShs. 9.8 billion. This saw their contribution to the Group rise to 17.0 from 13.9% in the previous year. This was anchored on strong organic growth in our international business and the successful merger of KCB Bank Rwanda with BPR to create BPR Bank.

Update on integration activities

During the year, we concluded the upgrade and merger of core banking systems for BPR Bank Rwanda. The upgraded system will harmonize channels applications to create a unified, seamless, and improved customer experience across all customer touch points. This will enable us to respond to business demands and address future customer and business needs. We are currently defining a working model for harmonization and alignment of TMB's technology policies with those of the Group and prepare for the core banking migration for the subsidiary.

At the National Bank of Kenya, integration of systems continued during the year. The transactions reconciliation tool and the credit origination and management system running centrally at Group were rolled out to NBK. We have also integrated some payments systems such as SWIFT and card payments. Currency management services are also run centrally leading to cost savings and improved efficiencies.

Acquisition of TMB Bank in DRC

During the year we completed the acquisition of an 85% stake in Trust Merchant Bank (TMB) in the Democratic Republic of the Congo (DRC). TMB increases KCB's scale of operations by granting us a presence in the largest country in the East African Community and provides opportunities for income diversification. This avails a significant opportunity for the Group to enable linkages for customers operating across the region which will spur business growth, leveraging of key core competencies of the Group and TMB to enhance efficiencies.

More information on this acquisition is available on note 33 in the Financial Statements.

Enriching KCB's Investment banking and asset management proposition

The Group reorganized its investment banking and asset management subsidiaries to better position the business to capitalize on the opportunities availed by the improving market sentiment and the anticipated rebound in capital market activities in Kenya and the region.

KCB Investment Bank

KCB Capital Limited was rebranded to KCB Investment Bank (KCBIB) and will offer wealth management, advisory, brokerage services as well as the distribution of collective investment schemes with a focus on money market fund.

The subsidiary will endeavor to become the leader in developing market specific solutions and leverage the large retail footprint the Group has in the region to reach a wider market. This will also allow the investment bank to harness opportunities availed by our large corporate clients' base to offer advisory services to customers in need of alternative financing with a greater focus towards women owned businesses, climate finance and agribusiness.

The wealth management service unit within KCBIB, was created to focus on crafting and advising customers on fixed income solutions, bespoke wealth portfolio optimization, offshore equities, ETFs and Mutual funds. Additionally, the unit will continue to offer brokerage services, advisory services and proprietary trading and will ensure 360-degree financial coverage of client needs and continuous product developments in an ever-changing environment. The service will deploy innovative and competitive money market products, with low minimum commitment amounts to attract the largely untapped retail market and inculcate a savings culture.

KCB Asset Management

National Trustee and Investment Services Limited (NTISL) moved from being a subsidiary of NBK, to become a subsidiary of KCB Group and was rebranded to KCB Asset Management (KCBAM). The entity will focus on provision of fund management through collective investment schemes and pension management. KCBAM will also offer corporate trustee services.

In 2023, the entity will capitalize on the favourable outlook and improving market dynamics across the region in order to grow its assets under management. With a significant pipeline of opportunities, we will maintain our strategic focus and aim to deliver more value for our clients. The key focus area is to realize the full potential of the repositioned asset management business. We have boosted our capacity to offer premium services by investing in people, processes, and technology.

Bancassurance

Through our bancassurance unit, we take pride in giving our customers the impetus to conduct their businesses and the peace of mind to thrive in life, without worrying about unforeseen events. We achieve this through a suite of innovative products in medical, property, and life insurance segments. While insurance intermediary remains one of the most competitive fields, we differentiate ourselves by our superior value proposition, wide distribution footprint, exceptional talent, and robust technology.

In 2022, we completed the alignment of our bancassurance business in compliance with the Bancassurance Regulations, 2020. These regulations mandated a wide range of changes to be made in the way bancassurance entities are operated. The entity needs to be a fully owned subsidiary of a Bank or a Group holding company. The second alignment required was for the name of the entity to change from Insurance Agency to Bancassurance Intermediary, noting that the Insurance Regulatory Authority (IRA) was establishing a third channel of distribution in the Act — Brokers, Agents, and Bancassurance Intermediaries. Other requirements were for the entities to put in place professional indemnity insurance and a bond or bank guarantee assigned to the IRA. Staff employed by the bancassurance unit in managerial roles must also meet specific minimum professional qualifications, all of which we achieved during the year.

As result of our excellent customer service and the support we offer our clients including in processing of claims with the respective insurance companies we partner with, we were feted at the Think Business Awards in Kenya, scooping awards in customer centricity, non-life and non-embedded products, technology application, life products, and risk management.

Sustained market-beating growth in 2022

Our bancassurance intermediary business sustained its market-beating growth trajectory powered by innovative products, effective sales campaigns and a wider distribution network availed by the Group's footprint. The subsidiary achieved a 33% growth in gross premiums to KShs. 4.3 billion, three times faster than the average industry rate.

To stay ahead of the curve, we had to continuously innovate. For instance, during the year, we launched a parents and siblings medical cover for our staff to take care of the emerging needs for enhanced medical insurance. We also launched card insurance to cover the risks associated with the use of debit and credit cards by our customers on the back of increased e-commerce which bring attendant challenges with regards to online safety.

We upgraded our core bancassurance system to bolster its capacity and serve as an anchor upon which we build a true Group business. We also formed a talent development committee to institutionalize a succession planning strategy that will build a talent cover and ensure retention of peak performers. We continued to collaborate with industry players in developing insurance solutions. All propositions that we have developed have come from multiple engagements with our internal and external customers. Our bancassurance unit has also been at the forefront supporting Bank customer acquisition campaigns thus creating an opportunity to offer risk management solutions.

Superior returns on investment

The business registered the highest return of equity across all our subsidiaries on the back of improved profitability and relatively low capital outlay. 2022 was yet another record year for the subsidiary with pretax profits growing by 21% to KShs. 638 million. We plan to sustain this momentum further in 2023 with a renewed focus on growing the life segment which avails tremendous opportunities on the back of increased customer demand. We will also continue to innovate and rollout solutions to tap on the immense opportunities available in the MSME segment and the gig economy.

In line with creating a regional business, our bancassurance business facilitates knowledge transfer and trainings across our regional subsidiaries to share best practices on products design, sales, and customer excellence. The business also supports other Group subsidiaries seeking to launch bancassurance solutions in their markets. We are excited by the synergies offered by our new insurance business in DRC, Affrissur, and we look forward to drawing on shared best practices in the insurance industry to deliver best in class solutions for our customers and grow our market share.

Environmental, Social and Governance

The Group is committed to creating long term value for shared prosperity through alignment of our strategy to sustainable practices. As we deepen our presence across the region, we continuously seek to embed best environmental, social and governance (ESG) practices as we endeavor to build a future-proof business. We recognize that we have a responsibility to our stakeholders to apply the best initiatives towards the management of risks and opportunities related to ESG matters across our operations.
Our ESG approach is anchored on leading the transition to a low carbon future, delivering high social impact and ensuring sound corporate governance practices.

Environmental: Leading the Transition to a Low Carbon Future

We are at the forefront leading the transition to a net zero society and a circular economy. This shift is not only good for the environment, but also presents immense opportunities for the Group to channel financing to projects aimed at addressing climate change.
We are committed to be Net Zero by 2050.

For the Group to fully transition, there is need to change, adapt, invest, and innovate more. We have made significant advancements to ensure that our actions are aligned to our climate goals.

RACE TO ZERO

Managing climate risks

We appreciate that regulators, investors, and customers have taken a keen interest in sustainability. In Kenya, the Nairobi Securities Exchange and the Central Bank issued the ESG guidelines and the climate related risk guidelines respectively. This development sets the stage for the financial industry to progressively adopt and mainstream sustainability and non-financial disclosures not just for compliance but as a business imperative.

During the year, the Group submitted its climate risk road map to the regulator and took steps to ensure prudent management of climate risks.

Some of the actions we implemented towards this goal include:

- Updating of the Board Audit and Risk Committee charters to include the Board's mandate on ESG considerations.
- Review of credit and sustainability policies to enhance management of climate-related risk and to include the roles and responsibilities of respective business units on climate risk issues.
- Review of the Group Enterprise Risk Management (ERM) framework to incorporate climate-related risk as a principal risk.
- Enhancement of the ESDD tool to include additional climate related aspects.

Championing sustainable finance via green lending

At KCB, we are focused on increasing our lending portfolio towards projects aimed at addressing climate change. Towards this goal, we have set an ambitious target to grow this portfolio to 25% by 2025. In 2022, we supported our banking subsidiaries to set a firm foundation for green lending through the review of key policies. These included the review of KCB Kenya credit policy, Group social environmental management system policy, Group sustainability policy as well as Group and Kenya risk appetite policies. As a result of these actions, the proportion of green loans in KCB Bank Kenya grew to 12.3%, from 8.4% in the prior period. We also concluded the first portfolio review exercise in BPR Bank Rwanda which identified 16% green loans in their loan book.

In addition, to accelerate the growth of this portfolio, the Group is banking on the accreditation of KCB Bank Kenya by the Green Climate Fund to advance more financing towards climate projects. The Bank has so far developed concept notes in transport, infrastructure, and agriculture sectors for consideration by GCF for funding. During the year, KCB Bank Kenya also tapped on a USD 150 million facility from the International Finance Corporation (IFC) to be channeled to climate projects. The funds are targeted at growing our financing for renewable energy, energy efficiency, water efficiency, green buildings, climate smart agriculture and adaptation projects.

To champion the transition to low carbon mobility, the Group partnered with an e-mobility company to finance the purchase of electric buses by public transport operators. Through this partnership, the Group will support customers in the public transport sector to reduce their greenhouse emissions and enhance their ability to respond to climate change through adaptation and mitigation measures. In addition, the customers will have access to embedded tracking and fleet management equipment already installed on the electric buses, while also accessing insurance financing.

In addition, KCB Foundation partnered with the United Nations Institute for Training and Research (UNITAR) to promote the use of electric motorbikes by boda-boda riders in Kenya as part of the effort to accelerate the transition to a low-carbon resilient economy. This pilot project seeks to promote eco-friendly types of electric motorcycles and provide lessons that will guide the approach to scale up the initiative towards leading the phased removal of fossil-fuel powered motorcycles in Kenya.

Across our schools, we launched clean energy and LPG gas solutions to enable private and public learning institutions access financing to support them transition to clean energy.

Proportion of green loans in 2022

KCB Bank Kenya	BPR Bank Rwanda	Our 2025 Target
12.3%	16.0%	25.0%
2021: 8.4%		

Nurturing a sustainable supply chain

A sustainable supply chain creates an enabling environment that ensures enterprises integrate sustainable practices and policies at different levels. It helps to manage risks, build brand reputation, ensure the welfare of society, and conserve the environment.

Our aim is to establish a procurement system that will play the role of a lever for sustainable supply chain management, engagement, and transformation. In 2022, we rolled out a supply chain and shared services sustainability programme with the flagship project being the adoption of a supply chain code of conduct.

By the end of the year, up to 53% of our supplier base had signed onto this code of conduct. Adherence to the code guides our suppliers to grow their businesses while ensuring the embedding of sustainable practices in their own supply chains and contribute to the transition to net zero.

Restoration of biodiversity

We are leveraging our branch network to partner with local schools and community groups to grow and nurture trees in their regions. We launched this drive in November and managed to plant over 10,000 trees across our branch network. In 2023, we seek to plant 1.5 million trees across the country. Furthermore, through these partnerships, the Bank seeks to unlock lending to economically viable tree planting initiatives for bamboo, mango, and avocado trees among others as a source of livelihood for community groups.

We also partner with the World Rally Championship, county governments and local communities. This partnership with the host communities ensures the attainment of a high survival rate for the planted trees. We believe that by taking this initiative to collaborate and plant trees along the rally routes and within the host communities, we cement the Bank's dedication to attaining SDGs 13 on Climate Action and 17 on Partnership for the Goals and in the eventually contribute to our net zero commitment.

Embracing the culture of responsible banking

Our business growth is underpinned by the development of sustainable cities and resilient communities. We understand the importance of running a purpose-led business that not only focuses on profit, but also considers the impact on the communities we transform, the businesses we grow, the lives we change and the environment we operate in.

As a responsible lender, we screen our loans under our environmental and social due diligence (ESDD) process. This exercise is conducted for proposed and ongoing projects to ensure our financing does not pose negative effects on the environment and society. This screening is guided by the IFC performance standards, and our internal policies. In 2022, we lowered the threshold for projects required to undergo this screening from KShs. 100 million to KShs. 50 million, across MSME and Corporate segments. The total value of facilities that underwent this screening in 2022 was KShs. 270.4 billion, up from KShs. 244.8 billion in the prior year.

Through this screening, we assess potential risks through a structured analysis of the effects of the proposed projects, occasioning an early withdrawal of untenable proposals. We are also able to predict and mitigate any adverse effects.

The screening also serves as an adaptive, organizational learning process, in which the lessons gained are factored into policy and project design thus enhancing positive aspects. In addition, our customers gain knowledge on ways to mitigate some of the environmental and social risks that their businesses are exposed to and identify opportunities for transition to the green economy.

Loans Screened through ESDD process		Threshold for projects required to undergo ESDD	
2021	2022	2021	2022
KShs. 244.8 Billion	KShs. 270.4 Billion	KShs. 100 Million	KShs. 50 Million

Impacting our adopted SDGs

The Sustainable Development Goals (SDGs) developed at the United Nations Conference on Sustainable Development outlined universal goals that would help combat the urgent environmental, political, and economic challenges that the world faces. In line with our commitment to sustainability, we prioritized 12 SDGs that are related to our company's business strategy. To this end, we have devised internal output indicators designed to enhance the Group's economic, environmental, social, and governance performance, as well as track our contributions to these 12 priority SDGs.

To further accelerate our efforts towards sustainable development, in 2022 we signed up to the African Business Leaders' Coalition (ABLC), to bolster actions in addressing climate change. The coalition, convened under the UN Global Compact, brings together companies across Africa to drive initiatives on addressing pressing sustainability issues such as human rights, labour, environment, and anti-corruption.

Progress on our adopted SDGs is disclosed in our Sustainability Report available at https://kcbgroup.com/sustainability/

Our Key Priority Areas in 2023

2023

Looking forward to 2023, we will

- Accelerate green lending.
- Drive tree planting initiatives across the Group.
- Heighten our focus on climate risk management through the development of a climate taxonomy for the Bank to help in managing our exposure to climate related risks.
- Review the current portfolio for exposure to climate risks.
- Develop climate-related risks due diligence tools.
- Conduct climate risk stress testing.
- Continuously build the capacity for our staff to drive green lending and entrench sustainable practices.

Social: Delivering high Social Impact

At KCB, we leverage our products, policies, programmes, and actions to deliver social impacts in the markets we operate in. We recognize that we operate within the context of a society that is intrinsically inequitable and thus deploy our strategy to address social inequities that exist within our locus of control.

In addition, we tap on our Foundation to drive the creation of shared value. The Foundation was established in 2007 and supports programmes in education, small enterprises, health, environment, and humanitarian aid, with great emphasis given to underserved communities.

Supporting small businesses

The Group deliberately works towards availing more lending to micro, small and medium size enterprises (MSME) as this segment is the engine that powers economic growth across our markets. We continuously revamp our products to meet the ever-changing customer needs and ensure that the solutions we offer are accessible and affordable to small businesses.

To achieve this goal, we revised lending criteria, extended loan tenures, enhanced limits, invested in automation and devolved lending discretion to ensure faster turnaround times. We also leveraged on data analytics to prescore customers and revised rules for small businesses to accommodate new to bank customers who may be inhibited by lack of prior banking relationship for credit appraisal.

This has driven significant growth in our MSME loan book. We further increased financing to these businesses during the year through our long term secured and unsecured MSME loans and agribusiness loans. Our Boresha Biashara micro businesses loan book more than doubled in 2022 fueled by devolving of lending discretion to branch managers which shortened the swim lane for credit appraisal. Overall, our MSME loan book has grown exponentially in the past two years crossing the KShs. 100 billion mark in 2022.

We revised lending criteria, extended loan tenures, enhanced limits, invested in automation and devolved lending discretion to ensure faster turnaround times.

Driving financial inclusion & literacy

We contribute to a more inclusive economy and society by availing accessible and affordable financial solutions delivered through convenient channels. This is supported by consumer education and financial literacy training to ensure that our customers transact safely across our channels.

Through our robust mobile banking platform, we offer innovative solutions that enable customers to pay, save and borrow on the go ensuring ease of access to banking products through a cost effective and secure channel.

We continue to innovate and develop financial solutions that meet the needs of customers who have previously faced various impediments in accessing banking products. These innovative solutions include our tailor-made Female Led and Made Enterprises (FLME) proposition, solutions for schools, cost-effective payment solutions and financing products for small businesses among others.

Under our partnership with the National Council for Persons with Disabilities, we enable persons living with disabilities access funding for purchase orders issued by government institutions. In addition, across our branch network, we have installed ramps to ensure ease of access for persons living with disabilities and availed training courses on sign language for our customer facing staff.

We contribute to a more inclusive economy and society by availing accessible and affordable financial solutions delivered through convenient channels.

Supporting schools to broaden access to education

KCB has traditionally supported the advancement of education across various levels. We bank the largest segment of both public and private schools across the region, and we have maintained our stance as a dependable partner over the years. We support schools in several initiatives including facilities for clean energy, infrastructure improvement, donations of learning materials, scholarships for needy students and school bus financing.

During the year, we launched clean energy and LPG gas solutions to enable private and public learning institutions access financing to support them transition to clean energy. We also availed accommodative LPO terms for contractors of school infrastructure projects, needed to complete the actualization of the competency-based curriculum (CBC) and to accommodate additional learners expected in secondary schools in Kenya in 2023.

We also partnered with an education technology firm to enable customers and schools access coding lessons at discounted rates and pay in instalments. Through this partnership, we are now at the forefront of driving the mainstreaming of digital learning. We seek to continue supporting the entire ecosystem for the region to achieve its education ambitions in terms of access and quality.

During the year, we launched clean energy and LPG gas solutions to enable private and public learning institutions access financing to support them transition to clean energy.

Responsible procurement and supplier diversity

At KCB we promote responsible procurement and prioritize purchasing from local businesses. The Group has a zero-tolerance policy against all forms of corruption, bribery, and unethical business practices. We require all service providers to adhere to the Group Code of Ethical Conduct.

We also have in place a policy to ensure equitable distribution of work to our suppliers. This policy places emphasis on MSMEs as well as special interest groups. These special interest groups comprise enterprises owned by youth, women and persons living with disabilities.

In Kenya, we made deliberate efforts in 2022 to engage special interest groups through the Ministry of Youth, industry lobby groups for women in business, our Biashara club, and the National Council for Persons with Disabilities to build a diverse supplier base. During the year, we onboarded six additional special interest groups raising their total number to 52. Overall, these groups were awarded procurement contracts worth KShs. 828 million in 2022.

In addition we have in place a supplier performance framework to evaluate performance of our suppliers annually. In 2022 this evaluation was conducted for 116 key contracted vendors, returning an average performance of 91% against a minimum of 85% on all deliverables.

The Group has a zero-tolerance policy against all forms of corruption, bribery, and unethical business practices

Evaluation was conducted for 116 key contracted vendors, returning an average performance of 91% against a minimum of 85% on all deliverables

Focus on affordable housing

We play an active role in the affordable housing market in Kenya by providing relevant and appropriate financial solutions to our customers. To bolster our contribution to this key segment, we introduced an affordable housing mortgage proposition in 2022. This product benefits customers in the lower-middle and middle-income earning brackets across consumer and MSME segments.

It offers affordable financing towards purchase or construction of residential units for owner occupation and is priced at a very competitive interest rate. Through this product, we seek to increase and encourage home ownership, reduce demand deficit of decent housing, increase social well-being, and promote financial inclusion.

Employee value proposition that rewards productivity

Fair and responsible remuneration is a core principle for us, and our specific actions reflect a deliberate decision to strengthen this stance. Over the years, the Bank has consistently managed to maintain a low staff attrition rate backed by our competitive employee value proposition that rewards productivity and attracts the requisite talents to deliver on our strategy.

We purposefully endeavor to maintain fairness and equity in employee remuneration and motivate high levels of employee performance in an affordable and sustainable manner. The Group regularly participates in remuneration benchmarks to ensure it remains competitive in the market within which we operate.

Furthermore, we recognize and reward individuals and teams who perform exceptionally and create positive impact to the business through our annual Simba awards programme. We also implement annual reviews and pay bonuses subject to individual and company performance. In addition, we provide other benefits such as pension, below market loan facilities and a wellness package. These activities kept our attrition rate at 6.0% in 2022.

Physical and mental wellness continues to be a key concern at the workplace. In 2022, we conducted awareness campaigns on a wide range of wellbeing topics such as change management, financial management, mental health, and dealing with addictions. Additionally, there were men and women fora to address gender-specific challenges and aspirations. The Bank also organized inter-regional games to enhance physical wellness and avail networking opportunities for staff. Workshops and training for wellness champions were also held to upskill and help the champions to identify and assist colleagues in distress.

Staff Attrition Rate

2021	2022
6.9%	6.0%

We maintain fairness and equity in employee remuneration and motivate high levels of employee performance

Continuously adapting our people's skills

We have consistently invested in leadership development programs across all levels. This is done in conjunction with the succession planning and talent management process.

Trainings continue to be a key pillar of enhancing capacity of staff to deliver on their mandates. To enhance our staff skills, we run blended training programs with part of the program conducted virtually and the other, in person or as on the job assignments. In 2022 we rolled out a new online learning platform which gave staff the freedom to learn in the format that best suits them. The platform avails access to videos, audio books, podcasts, e-learning courses, and instructor led courses.

Talent cover is key for a competent workforce. The Group has put in place a robust talent management framework to drive the identification of the right development initiatives for staff. During the year under review, a cohort of high performing staff were placed through an intensive training program to develop their skills for the next level of responsibility enabling us to build a talent bank.

We have consistently invested in leadership development programs across all levels. This is done in conjunction with the succession planning and talent management process. As leaders are promoted to new roles, they receive training on leadership and technical skills. In addition, they are allocated mentors to guide them through the transition. This has created strong teams that are able to efficiently deliver on the objectives of the organization.

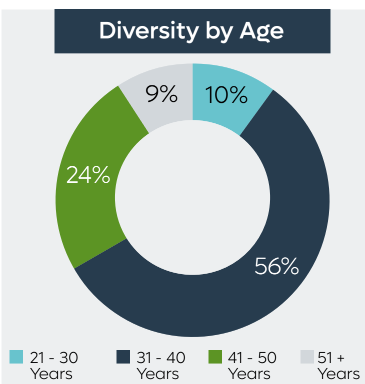
As a result of these efforts to build a leadership pipeline, we undertook a seamless transition in our leadership during the year with the inhouse recruitment of a new Group Chief Executive Officer (GCEO). Besides the GCEO, 416 other staff were also promoted across the Group after demonstrating ability to handle greater responsibility, 41% are female. The composition of our senior management team is presented on pages 44 and 45 of this report.

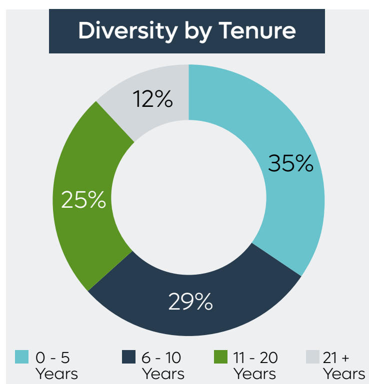
Overall, 417 employees (41% female) were promoted across the Group after demonstrating ability to handle greater responsibility.

Championing diversity and inclusion

Our diversity and inclusion policy guides our organisation to create and sustain an environment that attracts and retains a diverse and inclusive workforce. Through this policy, we ensure that we sustain an environment where each employee can develop to their full potential irrespective of their race, ethnicity, gender, marital status, age, disability and religious beliefs.

We have made significant progress across board. As at the end of 2022, female employees accounted for 47% of our total headcount and 41% of all managers. In addition, female employees accounted for 33% of senior roles. To improve this, we are rolling out targeted training programmes for women staff under the women in leadership programme. The programme is designed to support women in management roles to nurture skills and implement plans that support career progression.





Proportion of Female Employees in:

Total Headcount	Management Level	Senior Management	Executive Committee
47%	41%	33%	27%

Availing clean water and sanitation through Majikonnect

Access to water and sanitation is recognized as one of the key components of Sustainable Development Goal (SDG) 6. Our subsidiary NBK adopted SDG 6 as its anchor SDG with a focus on contributing to Kenya's drive to provide Clean Water and Sanitation for All.

Majikonnect is a financing programme for the water sanitation and hygiene sector targeting Micro, Small and Medium-Sized Enterprises (MSMEs), Corporates, and Water Services Providers (WSPs). The programme's objective is to support the water sector with affordable and flexible financing to improve access to water services, spanning from infrastructure to last-mile connectivity.

Majikonnect is a financing programme for the water sanitation and hygiene sector targeting Micro, Small and Medium-Sized Enterprises, Corporates, and Water Services Providers

Target Loan Disbursements under Majikonnect

in 2023	by 2027
2 KShs. Billion	5 KShs. Billion

In addition, NBK is committed to providing end to end solutions by leveraging on technology to reduce costs and water losses, streamline operations and maintenance, and improve data and asset management. This aligns well with our Majikonnect objectives on reduction of Non-Revenue Water (NRW) and is a good platform to showcase our payments/lending solutions, especially SMART metering technologies to water sector players.

NBK has been implementing the WASH Financing Program supported by Aqua for All with the pilot phase ending in December 2022. During this pilot phase, NBK partnered with several industry actors, consultants, and associations within the sector to support various programmes.

Staff training with understanding of the Water Sector will play a key role in ensuring our branches have the same shared knowledge of the Majikonnect product to drive the success of this program. We rolled out these product training to all our staff working in relationship management and credit teams in 2022.

NBK has committed KShs. 5 billion in commercial lending to borrowers engaged in Water, Sanitation & Hygiene (WASH) ventures. In 2023, we expect to unlock lending of KShs. 2 billion through this programme.

Supporting smallholder livestock farmers

Under the Mifugo ni Mali program, we supported 70 farmer producer organizations (FPOs) with a membership of over 1,200 livestock farmers through capacity building in business planning, livestock insurance, credit preparedness, and pasture establishment. We also supported the FPOs to rehabilitate four market centers, linked them with product off takers, availed value addition equipment and facilitated business-to-business trade fairs. This enabled the farmers earn over KShs. 332 million in sales during the year.

Furthermore, our Foundation facilitated the 2022 Baringo County Kimalel Goat auction in December 2022 graced by the President of the Republic of Kenya. A total of 2,533 goats from 833 households were sold earning the farmers over KShs. 27.8 million, translating to an average earning of KShs. 33,000 per household.

Tackling youth unemployment

In Kenya, through our Foundation's 2Jiajiri flagship programme, we created 4,386 jobs in 2022. We also supported 3,485 businesses reaching over 7,500 households and impacting over 37,000 people. In addition, we trained 3,529 youth project participants in various sectors enabling them to acquire market-oriented skills. We also availed support through business development services to 3,802 youth enterprises and linked 2,243 businesses to markets during the year. In addition, the Bank partnered with the Kenya Maritime Authority to help youth access employment opportunities on various cruise ships. Through this partnership, we availed a KShs. 5.25 million grant through our Foundation to support 150 youth seafarers with travel and visa applications. We look forward to expanding this program in 2023 to benefit more seafarers.

In addition, we partnered with county governments of Nakuru, Tharaka Nithi, Meru, Kiambu and Busia to support youth in technical and enterprise development reaching 2,500 beneficiaries. We also partnered with Clean Start Solutions, a social enterprise that collaborates with women and their children impacted by the criminal justice system in a bid to restore dignity and hope for successful reintegration into society. Through this partnership, KCB Foundation and Clean Start works to identify imprisoned girls to provide opportunities in schools, technical training institutions, and support towards enterprise development.

In the year, we also partnered with Latia Agribusiness Solutions to drive the technical agronomic aspects of hydroponics farming including training and mentorship of 200 greenhouse owners and off take of their farm produce. This partnership, led to a 76% reduction in cost of inputs as compared to previous production cycles due to improved efficiency.

In Tanzania and Uganda, the Foundation continued with the expansion of the 2Jiajiri programme in partnership with GIZ, through the recruitment and training of 760 and 763 youth project participants respectively. The youths were enrolled in various Technical Training institutes in the countries. 186 and 650 youths in Tanzania and Uganda respectively completed their six months technical and attachment training and were released to the job market. 836 transitioned into the business development service journey that enables the youth to start and develop their business development and entrepreneurship skills.

In Burundi, we launched KCB Foundation youth employment programme to mark the subsidiary's 10-year anniversary. The project dubbed Iteze Imbere (empower yourself) adopted all our 2Jiajiri pillars and corporate social investment activities. In Rwanda, the Foundation launched the Igire class of 2022, availing six-month training for 199 youth in vocational skills. We also partnered with Digital Opportunity Trust and the National Youth Council to provide entrepreneurship and business plan training to selected beneficiaries. The beneficiaries were trained to identify suitable businesses and prepare a pitch from which, ten best businesses were each awarded seed capital of KShs. 200,000 by the Foundation.

Case in point
Mining green gold through agribusiness

My name is Maurice Moses, and I am the CEO of Mycella Foods Limited. My passion for agribusiness was prompted by the desire to earn from my farm which I had been using for subsistence farming only. I had heard outstanding stories of many young people who are mining green gold through various agribusiness ventures.

My initial plan was to farm strawberries, but this quickly changed after I did some research and spoke to a friend about my thoughts. It is this friend who introduced me to mushroom farming and I bought the idea. I started farming mushrooms but soon realized that I had two sets of challenges to face; the challenge to improve productivity and the challenge of setting up my new venture as a business to increase profits. I realized that I needed experts to help me address these challenges. This is when I was introduced to KCB Foundation and enrolled for training. The Foundation instilled in us the importance of teaming up which led us to register our venture as a limited company.

We were also trained on how to do business professionally and conduct the business such that it is investor ready through correct bookkeeping. Courtesy of this training by the KCB Foundation, Mycella Foods Limited is enjoying significant business growth. We now supply mushrooms to supermarkets and local hotels. In fact, we are not only earning our livelihoods from mushrooms but have also brought more people on board as employees.

At Mycella Foods Limited, we are grateful to have benefitted from KCB Foundation's programme. We urge youth entrepreneurs in agriculture and other sectors to take up training opportunities by KCB Foundation to upskill. We thank the Foundation for the role it is playing in empowering the youth to venture into agribusiness and other vocational careers. As Booker T. Washington said, "Success always leaves footprints." We are happy to be part of the monumental impact that the Foundation is creating in the region.

Availing scholarships for vulnerable students

The scholarship program continued with its scale up reaching 1,326 high school and 217 tertiary students from disadvantaged backgrounds across all counties in Kenya. 11% of these high school scholarships were awarded to vulnerable students comprised of victims of harmful cultural practices, teen mothers and persons living with disabilities. In addition, the programme registered an impressive 91% university transition rate.

In the year, the KCB Foundation launched the Alumni Club of mentors. The club is aimed at promoting and fostering mutually beneficial interaction within the alumni community and also with the present scholarship programme student beneficiaries. We also partnered with the Mpesa Foundation and Starehe Boys Centre to train gifted and talented students under the scholarship programme. A total of 66 students benefited from this training in 2022 rising the cumulative number of beneficiaries under this partnership to 134.

Scholarships in 2022		
High School	Tertiary	University Transition Rate
1,326	217	91%

Supporting vulnerable households

The Group continues to mobilize support for various social initiatives across the region. In November, KCB Bank Kenya contributed KShs. 130 million to support the country's drought response initiative, providing food and essentials to thousands of households. KCB Foundation in partnership with the National Drought Management Authority and county governments made interventions towards augmenting government efforts in cushioning households hard hit by the ravaging drought requiring urgent supply of food and water.

In Burundi, the Foundation partnered with the First Lady Foundation to donate maternal medical equipment worth KShs. 3.5 million to boost the fight against infant mortality in the country. Over 500,000 mothers are expected to benefit from this support.

During the year, we also revamped our Ubuntu Initiative which provides an opportunity for KCB staff to give back to their communities. Through this initiative, our staff raised KShs. 2.3 million for community initiatives in 2022. Coupled with a matching contribution from the Foundation, the initiative availed 81 high school scholarships for vulnerable students. Besides raising funds for worthy causes, our staff also volunteer in various community programmes under this initiative.

Case in point

KCB staff join Habitat for Humanity Kenya team to build Nanyuki widow a house

In celebration of Universal Children's Day, KCB staff travelled to Naibor village in Nanyuki in northern Kenya to volunteer their time and effort to build houses for the less fortunate in partnership with Habitat for Humanity Kenya (HFHK).

The initiative dubbed Adopt a Home, Build Hope seeks to enhance access to housing through low-cost housing to promote homeownership and avail dignified living conditions for vulnerable groups. This was the first of 20 houses that KCB Foundation has partnered with HFHK to build for vulnerable households every year, and a committed and passionate team of nearly 50 staff set out ready to make it happen.

The team participated in both skilled and unskilled tasks guided by HFHK's masons. They were also joined by the beneficiary family that consisted of Pauline, a 70-year-old widow and her seven orphaned grandchildren aged between four and 15 years old.

Pauline lost three of her children and they left behind seven children under her care. She is elderly and sickly and hence cannot work but has to depend on her eldest daughter and the government's Inua Jamii programme to raise her grandchildren.

The family lived in a three-roomed, mud-walled house with a flat iron sheet roof and dusty earthen floor and shared a pit latrine with the neighbours. In addition, they were sourcing water from either the Nanyuki River or a nearby borehole that was recently constructed by HFHK.

KCB Foundation and HFHK wanted to make a difference through the construction of a decent house, a ventilated pit latrine that comes with a bathroom and the provision of a 2,000-litre water tank. The 50-volunteering staff built two houses, bringing the total number of homes built in Laikipia County, under this initiative, to 81 houses.

"Giving back has always been an enriching experience for me. I was excited when I learnt of the ubuntu for humanity initiative via the daily staff Cascade bulletin. I could not say no to the call. During the exercise, I was reminded to view life from a different perspective, and this made me appreciate who, what and where I am. I am looking forward to the next initiative and have onboarded two colleagues who will join me when the next opportunity comes calling," commented one of the volunteers from our Digital Financial Service team.

Corporate Governance Statement

Corporate governance is the framework of systems, policies and processes by which we operate and through which our people are both empowered and accountable for making decisions that affect our business, operations, customers and stakeholders.

The framework establishes the roles and responsibilities of KCB Group's Board, management team, employees and suppliers. It also establishes the systems, policies and processes for monitoring and evaluating Board and management performance, and the practices for corporate reporting, disclosure, remuneration, risk management and engagement with our shareholders.

Our approach to governance

The approach of the Board of Directors ("Board") of KCB Group Plc. ("Company") to corporate governance is based on a set of values and behaviours that underpin our day-to-day activities, and are designed to promote transparency, fair dealing, and the protection of stakeholder interests, including our customers, our shareholders, our employees and our community.

We consider that good governance, achieved through an ethical culture, competitive performance, effective control and legitimacy is fundamental to the sustainability of our business and our performance.

The Board applies good governance practices to promote strategic decision making for the organization to balance short, medium and long-term outcomes to reconcile interests of the KCB Group together with its stakeholders and the society to create sustainable shared value. To that end, sound governance practices, based on accountability, transparency, ethical management and fairness, are entrenched across the business.

Directors have a statutory duty to promote the success of the Company for the benefit of its stakeholders. In promoting the success of the Company, Directors must have due regard to the long-term consequences of their decisions, the legitimate interests of employees, the need to foster effective business relationships with suppliers, customers and various stakeholders, the impact of the Company's operations on the community and the environment, and the desire to maintain a reputation for high standards of business conduct.

The Board is committed to ensuring that the Company complies with the laws, regulations and standards applicable to it. The Board is responsible for ensuring that high standards and practices in corporate governance and more specifically the principles, practices and recommendations set out under the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 ("the CMA Code"), the Corporate Governance Guidelines as prescribed by the Central Bank of Kenya being the primary regulatory authority of the Group and KCB Bank Kenya Limited as well as the Companies Act, 2015 ("the Act") are adhered to.

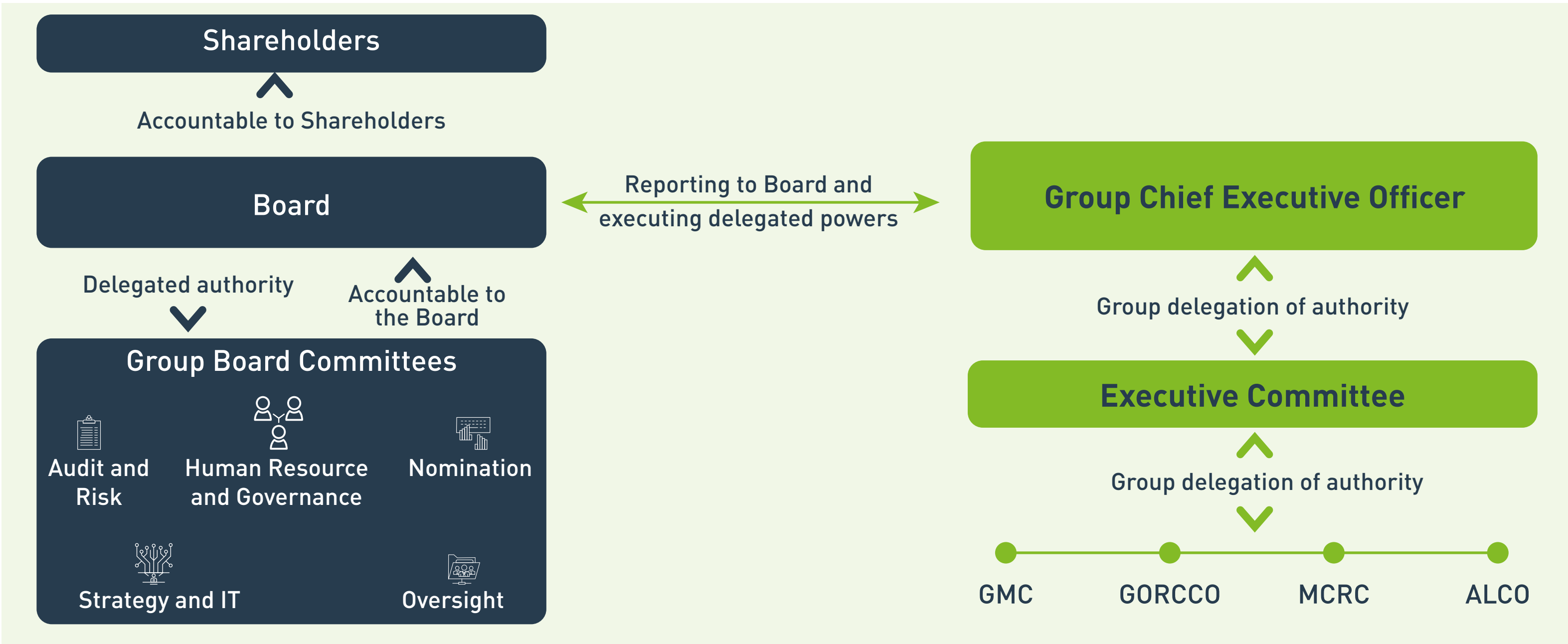
The Board regularly reviews its corporate governance arrangements and practices and ensures that the same reflects the developments in regulation, best market practice and stakeholder expectations. Our corporate governance framework enables the Board to oversee the strategic direction of the organization, financial goals, resource allocation, risk appetite and to hold the executive management accountable for execution.

This statement details the key corporate governance arrangements and practices of KCB Group Plc. and its affiliate companies (collectively, the "Group"). The statement sets out the key components of KCB Group Plc.'s corporate governance framework, which provides guidance to the Board, management and employees and defines the roles responsibilities and conduct expected of them.

Governance Structure & Framework

KCB Group operates within a clearly defined governance framework which provides for delegated authority and clear lines of responsibility without abdicating the responsibility of the Board. Through the framework, the Board sets out the strategic direction of the Group while entrusting the day-to-day running of the organization to the executive management led by the Group Chief Executive Officer, with their performance against set objectives and policies closely monitored. The Board operates through five committees mandated to review specific areas and assist the Board undertake its duties effectively and efficiently.

The fundamental relationships between the shareholders, Board, Board committees and executive management is illustrated below:



GMC – General Management Committee
GORCCO – Group Operational Risk and Compliance Committee
ALCO – Assets and Liabilities Committee
MCRC – Management Credit & Risk Committee

The Board Charter, which has been approved and is regularly reviewed by the Board, provides for a clear definition of the roles and responsibilities of the Group Chairman, directors as well as the Company Secretary. The roles and responsibilities of the Group Chairman and the Group Chief Executive Officer are separate and distinct with a clear division of responsibility between the running of the Board and the executive responsibility of running KCB Group's business.

The KCB Group Board Charter is available on the Company website (www.kcbgroup.com)

Separation of roles and responsibilities

The role of Chairman is separate from that of the Group Chief Executive. There is a clear division of responsibilities. Care is taken to ensure that no single director has unfettered powers in the decision-making process.

Chairman

Responsible for leading the Board, its effectiveness and governance.

Setting the agenda to take full account of the issues and concerns of the Directors and ensuring links between the shareholders, Board and management are strong.

Group Chief Executive

Responsible for day-to-day leadership, management and control of the Group.

Recommending the Group strategy to the Board and ensuring that the strategy and decisions of the Board are implemented via the Executive Committee

Independent Non-executive Directors

Ensure that the Group has in place proper internal controls as well as a robust system of risk management.

Constructively challenge the Directors and monitor the delivery of the Group Strategy within the risk and control environment set by the Board.

Company Secretary

The Company Secretary is a member in good standing with the Institute of Certified Secretaries (ICS). The Company Secretary sits in board meetings and serves as a central source of guidance and advice to the Board on matters of ethics, statutory compliance, compliance with the regulators and good governance.

Role of the Company Secretary

- Providing a central source of guidance and advice to the Board and the Company on matters of statutory and regulatory compliance and good governance.
- Providing the Board and the Directors individually with guidance on how their responsibilities should be discharged in the best interests of the Company.
- In consultation with the Chairman, identifying and facilitating continuous Board education and Directors' professional development as required and facilitating the induction training of new Directors.
- In consultation with the Group Chief Executive Officer and the Chairman, ensuring effective flow of information within the Board and its committees and between senior management and non-executive Directors.
- Guiding the company in taking the initiative to not only disclose corporate governance matters as required by law, but also information of material importance to decision making by shareholders, customers, and other stakeholders.
- Keeping formal records of Board discussions and following-up on the timely execution of agreed actions.

Our Board

KCB Group Plc. is governed by a Board of Directors ("Directors" or "Director") each of whom is, except for the Group Chief Executive Officer and Group Finance Director, elected by the Company's shareholders.

The primary responsibility of the Board is to act in the best interests of KCB Group and to foster the long-term success of the Group, in accordance with its legal requirements and its responsibilities to shareholders, regulators and other stakeholders. The Board achieves such success by setting appropriate business strategy and overseeing delivery against the set strategy. It ensures that the Group manages risks effectively and monitors financial performance and reporting.

The Board serves as the focal point and custodian of corporate governance in the organisation. The directors recognise that good governance can create shareholder value by enhancing long-term equity performance. While the Board is unwavering in its adherence with legislation and regulations, the Group's commitment to good governance goes beyond a commitment to comply with minimum standards – it strives to create an ethos where governance is a central consideration in the way the business of the Group is conducted.

The Role of Our Board

The Board sets the strategic objectives of the Group with input from management, and oversees management, performance, remuneration and governance frameworks of the Group. The Board develops and applies a work plan to help to ensure that it attends to all its responsibilities when these responsibilities have not been delegated to a committee.

The Board has the following key responsibilities:

- **Vision, strategy, values and purpose:** setting the vision, strategy, values and purpose and, in doing so, setting and overseeing the corporate culture.
- **People:** appointment and performance monitoring of the Chief Executive Officer, terms of employment and succession planning for executives, remuneration, diversity and workplace health and safety.
- **Business, operational and financial matters:** reviewing and approving the strategic direction of the Group, approving significant corporate strategic initiatives, overseeing the architecture and technology strategy and approving regulatory financial disclosures.
- **Risk:** considering recommendations of the Audit & Risk Committee including in relation to risk culture, the risk management strategy and framework, risk appetite and the effectiveness of risk management.

The scope of authority, responsibility and functioning of the board is contained in the Board Charter which is available on our website.

Key Activities and Achievements

During the year 2022, the board achieved the following key actions:

- Successfully oversaw the smooth transition of the Group Chief Executive Officer role with the exit of Mr. Joshua Oigara and the appointment of Mr. Paul Russo as the Group Chief Executive Officer on 25 May 2022.
- Led in the overall brand culture and customer transformation program seeing the introduction of the KCB Group brand purpose: For People. For Better.; new values: Closer, Connected Courageous and the related brand behaviours.
- Approval of the audited financial statements for the year ended 31 December 2021. The board further considered and approved the quarterly unaudited financial statements for the year.
- Reviewing and recommendation of a final dividend totalling to KShs. 9.6 billion for the year ended 31 December 2021. In November 2022, the board approved the payment of an interim dividend to shareholders amounting to KShs. 3.2 billion relating to the performance for the year ended 31 December 2022.

- Oversaw the successful acquisition of 85% shareholding of Trust Merchant Bank S.A. by KCB Group Plc.
- Oversaw the corporate and business reorganization of its investment banking business leading to the name change of KCB Capital Limited to KCB Investment Bank Limited. Natbank Trust and Investment Services Limited changed its name of KCB Asset Management Limited and moved from being a subsidiary of National Bank of Kenya Limited to become a subsidiary of KCB Group Plc.
- Considered and approved the recapitalization of KCB Bank Uganda Limited to ensure compliance with the regulatory threshold set by the Bank of Uganda.
- Reviewed the organization structure and approved an organization redesign with further review to be undertaken affecting specific units within the organization.
- Overseeing the succession planning of the Group board and the subsidiary boards.
- Reviewing and approving the strategic initiatives and financial plans for the year.

Board Composition

The Articles of Association of the Company provides that the Board shall comprise of a minimum of five and a maximum of eleven Directors. The current Board structure comprises of two executive Directors, one non-executive Director and eight independent non-executive Directors including the Group Chairman. The Board determines its size and composition, subject to the Company's Articles of Association, Board Charter and applicable law.

The Board composition is driven by the following principles:

- The Board must comprise of a majority of independent non-executive directors.
- The Board should consist of directors with a broad range of skills, experience and expertise and be from a diverse range of backgrounds.
- The Chairman of the Board must be an independent non-executive director.

Authority and Delegation

The Board Charter sets out the Board authority and matters reserved for determination and approval by the Board. These include decisions concerning strategy and long-term objectives of the Group, the Group's capital, financial planning and financial budgets, significant contracts and various statutory and regulatory approvals. Matters related to the approval of the remuneration policy, resource management, risk management framework and risk appetite are also Board reserve matters. To assist it in discharging these responsibilities, the Board has established Board committees to consider key issues.

The Group Chairman is responsible for the strategic leadership of the Board and is pivotal in creating conditions for the overall effectiveness of the Board. He promotes an open environment for debate and ensures all Directors can speak freely and contribute effectively. The Group Chairman plays a pivotal role in fostering constructive dialogue between shareholders, the Board and management at the Annual General Meeting and other shareholder meetings.

The Board, in the Board Charter, delegates responsibility for the day-to-day management of the business to the Group Chief Executive Officer. The Group Chief Executive Officer in turn delegates aspects of his own authority to members of the Executive Committee. The scope of, and limitations to, these delegations are clearly documented in various policies and cover areas such as operating expenditure, capital expenditure and investments. These delegations balance effective oversight with appropriate empowerment and accountability of senior executives.

To adequately undertake responsibilities in the day-to-day management of the business, in line with the authority delegated by the Board, management committees have been established. The management committees include the Executive Committee (EXCO), the General Management Committee (GMC), the Assets and Liabilities Committee (ALCO), the Group Operational Risk and Compliance Committee (GORCCO) and the Management Credit and Risk Committee (MCRC).

The Role of Our Board Committees

The Board committees assist the Board in carrying out its responsibilities. In deciding committee memberships, the best use of the range of skills and expertise across the Board is considered to ensure shared responsibility. Overlapping memberships in committees enables insights where matters raised in one Committee may have implications for another. Committee membership is reviewed regularly, and changes made on a need basis while ensuring that the overall continuity of knowledge within the committee is not affected.

The Board receives a report from the Chairman of each committee on significant areas of discussion and key decisions at the subsequent Board meeting. To assist each Committee in discharging its responsibilities, each Committee has an annual meeting planner that sets out the scheduled items of business and reports to be considered during the year. Each committee has in place terms of reference that sets out the roles and responsibilities and the procedural rules that apply to the committee.

Under the procedural rules, each committee must be composed of at least three members, a majority of independent directors and have an independent Chairman. The Audit & Risk committee is made up of only independent non-executive Directors in line with the provisions of the Prudential Guidelines issued by the Central Bank of Kenya.

A summary of the role of the current committees, current members and key activities undertaken during the year 2022 are set out below.

Board Committee	Key Activities
Audit & Risk The purpose of the committee is to provide a structured, systematic oversight of the institution's governance, risk management, and internal control practices. The committee assists the board and management by providing advice and guidance on the adequacy of the institution's initiatives for: • Values and ethics • Governance structure • Risk management • Internal control framework • Oversight of the internal audit activity, external auditors, and other providers of assurance • Financial statements and public accountability reporting	In line with its mandate, the committee reviewed the unaudited and audited financial statements for the full year 2022 and ensured that the same was ultimately approved by the Board. The committee further reviewed the internal audit reports presented by the Internal Auditor for audits undertaken during the year in line with the approved audit plan. The committee held sessions with PWC, the external auditor, to receive the auditor's independent report and assurance on the financial statements. During the year, the committee reviewed and approved various policies. The committee further received and considered reports on the level of compliance with AML/CFT regulatory requirements. The committee further reviewed ICAAP for the entire Group ensuring all business risk were identified and the Group had sufficient capital to cover the identified risks. **Members** **Lawrence Njiru (Chairman)** **Ahmed Mahmoud** **Dr. Obuya Bagaka** **Alice Kirenge** **Anuja Pandit**
Human Resources & Governance This Committee reviews human resource policies and makes suitable recommendations to the Board on senior management appointments. This Committee also oversees the nomination functions and senior management performance reviews.	Following the transition of the Group Chief Executive Officer role, the committee, jointly with the Strategy & IT committee, reviewed the overall organization structure reporting to the Group Chief Executive Officer and made recommendations to the Board for the adoption of the same. The joint committee further undertook the interview process for the various senior management roles arising out from the reorganization. The committee further considered and recommended the organization structure to support the business of the investment banking business following the implementation of the corporate reorganization. In line with its mandate, the Committee reviewed the senior management performance for the year. The committee considered and approved the job evaluation outcomes of senior management roles. The committee received the Organization Health Index report for the organization and took note of the feedback received and progress of implementation of the proposed recommendations. **Members** **Alice Kirenge (Chairman)** **Lawrence Njiru** **Ahmed Mahmoud** **Anuja Pandit** **Paul Russo**

Board Committee	Key Activities
Nomination Committee The Committee keeps under review the structure, size and composition of the Board as well as succession planning for Directors. It leads the process for identifying, nominating for approval by the Board, candidates to fill Board vacancies.	During the year, the committee reviewed the Board succession plans for the Group as well as the skills matrix for the Board and its subsidiaries. The committee identified and nominated two directors for approval by the Board to fill in casual vacancies. **Members** **Andrew W. Kairu (Chairman)** **Alice Kirenge** **Lawrence Njiru** **Ahmed Mahmoud** **Anuja Pandit** **Paul Russo**
Strategy & IT Committee The purpose of the committee is to assist the Board in meeting its responsibilities by ensuring the adequacy and effectiveness of the Company's strategic plans, significant investment decisions, strategic development plans and financial budgets. Ensuring also that Group's IT governance supports effective and efficient management of IT risks and resources to facilitate the achievement of the Group's strategic objectives and compliance with regulatory requirements.	The Committee reviewed the performance of the Group against the set strategy. The Committee further reviewed the proposed 2023 strategic initiatives, financial plans and budgets proposed by management. The committee received and considered reports on the performance of the Groups Information Technology systems and the progress in improved uptime and availability. **Members** **Geoffrey Malombe (Chairman)** **Dr. Obuya Bagaka** **Ahmed Mahmoud** **Paul Russo**
Oversight Committee The purpose of the Committee is to ensure that the KCB Group Board has total and complete oversight of the subsidiaries.	The committee reviewed large advances for amounts above Kes. 1 billion by the subsidiaries of the Group as well as procurement by subsidiaries where the expenditure exceeded Kes. 100 million. The committee further received quarterly updates on governance matters and on litigation cases for claim amounts of above Kes. 200 million across all subsidiaries. **Members** **Lawrence Njiru (Chairman)** **Dr. Obuya Bagaka** **Geoffrey Malombe** **Paul Russo**

Board Meetings

The Board has in place an annual work plan that sets out the Board activities in a year. The Board meets at least once every quarter, and additionally, when necessary, to consider all matters relating to the overall control, business performance and strategy of the Company and succession planning.

Directors are required to attend at least 75% of the meetings held during the year. Where a Director is unable to attend a meeting, the Director may provide feedback on any of the agenda items to be discussed through the Group Chairman.

The Group Chairman, in conjunction with the Group Company Secretary work closely with the Group Chief Executive Officer to come up with the annual work plan and to set the agenda for each meeting. The notice, agenda and detailed board papers are circulated in advance of the meetings. Directors are entitled to request for additional information where they consider further information is necessary to support informed decision-making.

During the year ending 31 December 2022, the Board held eleven Board meetings. A strategic planning session was held in conjunction with the Board meeting held in November 2022.

Details of Directors' attendance at Board and Committee meetings during the year 2022 were as follows:

	Board	Audit & Risk	Strategy & IT	Oversight	Nominations	HR & Governance
Number of meetings (Total)	**11**	**6**	**7**	**4**	**3**	**14**
Andrew Kairu	10		1		3	
C.S. National Treasury (Alternate – Eng. Stanley Kamau)	10		6	4		8
John Nyerere[1]	4		4		2	4
Georgina Malombe[2]	4	3		2		
Lawrence Njiru	10			4	3	13
Anne Eriksson	10	6	7			7
Ahmed Mohamed	11		7		3	13
Dr. Obuya Bagaka	11	6	7	3		8
Alice Kirenge	11	6			3	14
Anuja Pandit[3]	4	2				8
Joshua Oigara[4] (Group Chief Executive Officer & MD)	3		5	1	2	2
Paul Russo[5] (Group Chief Executive Officer)	8	3	7	1	2	8
Lawrence Kimathi (Group Finance Director)	9					

(1) Retired from the board on 13 June 2022.
(2) Retired from the board on 16 June 2022.
(3) Appointed to the board on 16 August 2022.
(4) Retired from the board on 25 May 2022.
(5) Appointed to the board on 25 May 2022.

Board Composition – what we look for in our Directors

The individual attributes of each Director are as critical as the skills and experience that they bring. There is an expectation that each Director be able to demonstrate sound business judgment, a strategic view, integrity, a readiness to question, challenge and critique, and leadership qualities.

At a collective level, the diversity of skills, knowledge, experience, gender and attributes enable the Board to provide the oversight needed to develop and achieve our strategy. In addition, experience through business and economic cycles developed from length of service on the Board is valued. This provides a deeper understanding of the industry including how political, regulatory, economic and financial market developments may impact the business, as well as providing the benefit of corporate memory.

More generally, our Directors are expected to have a clear understanding of our strategy and knowledge of the industry and markets in which the business operates, and be able to respectfully challenge management and each other. Our Directors must have a good understanding of the organization's operations and our stakeholders, to enable them to monitor effectively the performance of the business and the implementation of the strategy.

Skills, experience & diversity

KCB Group seeks to have a Board that has the right mix of individuals with relevant attributes skills, knowledge and experience and who jointly have the overall collective competence to deal with current and emerging issues and effectively guide management in ensuring the highest performance for the Group. The non-executive Directors are expected to have a clear understanding of the strategy of the Company as well as knowledge of the industry and markets in which the Group operates.

The aggregate mix of skills and experience of the Directors seeks to challenge management, ensure robust and constructive debate, augments and challenges the strategic thinking of the executives thereby adding value to the Group.

The Board regularly reviews the skills, knowledge and experience represented on the Board against the skills and experience needed to deliver the strategy. The Board continuously reviews the skills, experience and diversity mix of the Board and continues to make efforts on diversifying the skill set and gender. The Nominations committee has been tasked to take this into consideration in its nominations.

The current Board composition is as follows:

NAME	DATE OF APPOINTMENT	AREAS OF EXPERTISE	GENDER	NON-EXECUTIVE/ EXECUTIVE	INDEPENDENCE
Andrew Wambari Kairu	4 June 2018	Business management, corporate governance.	Male	Non-executive Chairman	Independent
C. S. National Treasury (Alternate - Geoffrey Malombe)	Institutional	Financial services, public sector.	Male	Non-executive	Non-independent
Lawrence Njiru	7 August 2018	Business strategy, finance, audit and accounting.	Male	Non-executive	Independent
Ahmed Mahmoud	16 July 2020	Corporate and commercial law, financing transactions and Islamic finance.	Male	Non-executive	Independent
Dr. Obuya Bagaka	6 October 2020	Public administration, public finance and budgeting, governance, policy development	Male	Non-executive	Independent
Alice Kirenge	10 November 2021	Strategic marketing, customer service, insurance and financial services.	Female	Non-executive	Independent
Anuja Pandit	16 August 2022	Banking, business advisory and management, finance and financial advisory	Female	Non-executive	Independent
Dr. Joseph Kinyua	24 March 2023	Public administration, economics, financial services and corporate governance	Male	Non-executive	Independent
Paul Russo	25 May 2022	Business advisory and management, strategy development, financial accounting and financial advisory.	Male	Group Chief Executive Officer	Non-independent
Lawrence Kimathi	1 May 2015	Financial advisory, financial accounting, business management	Male	Group Finance Director	Non-independent

Appointment, re-election and tenure of Directors

The board is committed to a process of orderly succession, aiming for a blend of diversity in geography, background, approach and gender.

Succession planning is an on-going process, with the Board discussing the same regularly and robustly. The nomination and appointment process of a director to the board is clearly set out in the nomination and appointment policy. The policy provides for the Nomination committee, which is responsible for the selection and appointment of board directors.

The process to appoint a new Director is overseen by the Board Chair and the Nominations Committee. The committee's responsibilities include recommending to the Board the procedure for the selection of new Directors, the proposed criteria for the selection of Board candidates with reference to the current mix of skills, knowledge, experience and tenure on the Board, and identifying and nominating a short list of candidates to the Board. The Board may engage the services of a professional intermediary to assist in identifying and assessing potential candidates.

The competencies outlined in the table below are among those considered in the selection of non-executive directors to the board.

Demonstrable business acumen	Special technical skills or expertise
Directors must have considerable business experience, together with proven understanding of corporate and business processes, which have been accomplished through a successful track record and must have an impeccable reputation in the business community.	Demonstrate significant knowledge and achievement in either business, finance, audit, law, technology, governance, strategy, management or other fields important to the operations of the Group. The combined experience of the directors of the board is expected to exhibit these competencies.
Integrity	**Time commitment**
Directors should demonstrate high levels of integrity, professional and personal ethics, as well as values consistent with those of the KCB Group. Directors must have the ability to exercise independent judgement.	Directors need to be able to dedicate sufficient time to adequately carry out their duties.

The preferred candidates meet with the members of the committee before a final decision is made. The committee then puts the short-listed candidate forward for consideration by the full board. Upon consideration of the Board, a successful candidate is appointed to the Board. Prior to the confirmation of appointment, all Directors are required to meet the "Fit and Proper" requirements set out in the Prudential Guidelines issued by the Central Bank of Kenya. New Directors are issued with letters of appointment, with clear terms and conditions regarding the discharge of their duties.

Change of Directors

Having served his full tenure of 8 years in line with the Board Charter, Mr. John Nyerere retired as a director on 13 June 2022.

Ms. Anuja Pandit was appointed as a director on 16 August 2022.

Mrs. Anne Eriksson resigned as a Director on 23 March 2023.

FCS, Dr. Joseph Kinyua, EGH joined the Board as a Director with effect from 24 March 2023.

A Director appointed by the Board to fill a casual vacancy must seek election at the next Annual General Meeting ("AGM") after their appointment. As further provided for in the Articles of Association, at every AGM, and as may be applicable, at least one-third of the non-executive Directors must retire from the Board and where eligible, stand for re-election.

During the 51st AGM of the Company held on 3 June 2022:

Mr. Lawrence Njiru and Mr. Andrew Wambari Kairu retired in line with the requirement under the Articles of Association and were re-elected to continue serving as directors on the board

Having served her full tenure of 8 years in line with the Board Charter, Mrs. Georgina Malombe retired as a director

Mrs. Alice Kirenge having been appointed to fill in a casual vacancy on the board, retired in line with the requirement under the Articles of Association and was re-elected by the shareholders to continue serving as a director on the board

The Board Charter provides that non-executive Directors are to serve for a term not exceeding a total of eight years. In accordance with the Board Charter, the Group Chairman serves for a maximum term of five years in that capacity.

Appointment and Equipping Directors to Perform their Roles

Each Non-Executive Director enters into an agreement that covers the Director's role and responsibilities, time commitments, induction and ongoing education, performance, remuneration, disclosure of outside interests, independence, privacy and confidentiality obligations. Arrangements for access to information, insurance, indemnity and access to independent professional advice arrangements are contained in the appointment letter signed by each Director.

Induction and Training

Following appointment, each Director participates in an induction program to familiarise themselves with our business and strategy and to develop industry knowledge. The information provided includes information about our corporate governance framework, policies, organisational structures and business activities.

The induction program includes a series of meetings with other Directors, the Group Chief Executive Officer and senior executives. Directors also receive comprehensive guidance from the Group Company Secretary on Directors' duties and liabilities.

There is a periodic review of the professional development activities needed for Directors to maintain their skills and knowledge to perform their role as Directors effectively. In addition to personal professional development training, Directors as a collective actively seek to enhance their knowledge of the Group's operations, industry and market developments, and regulatory changes. This is effected by the Board engaging with industry and regulatory leaders, participating in technical briefings, and undertaking regular deep-dive, free-form discussions with Executives and senior management at Board meetings.

The Chairman regularly reviews the professional development needs of each Director. The program of continuing education ensures that the Board is kept up to date with developments in the industry both locally and globally. It includes sessions with local and overseas experts in the areas of general corporate governance and in the fields relevant to the Group's operations.

Trainings undertaken in 2022 include:

i. Effective risk management trainings covering the following areas:
   - Board oversight of financial risk (FX risk, credit risk and funding and liquidity risks), strategic risk and hazard and operational risk
   - Data privacy and the development and implementation of a Data Protection Framework
   - AML/CFT.
   - Dynamic risk assessment and signals of change within the banking sector.
   - ESG trends, strategy, and the approach to climate change risk
   - Cybersecurity and payments fraud
   - Global financial crimes compliance

ii. Corporate governance training covering the following areas.
   - The role of the 21st century board
   - The individual director – roles and responsibilities.
   - Financial and Risk Oversight
   - Board dynamics
   - Board ethics

iii. Individualized director board training programs including:
   - Women Directors Leadership programme an incisive 8-month programme aimed at sharpening leadership ability and strengthening impact at board level.
   - The Effective Director programme that covers the work of the board and seeks to add value to the contribution of individual directors. The programme addresses contemporary paramount issues on boards.
   - The Effective Director Masterclass (TED Masterclass) Programme to take on a deeper dive into key aspects of oversight and monitoring that are required for the 21st-century director.
   - Emerging risks facing banks, regulatory environment and developments in financial reporting.
   - Leading the Board programme for sitting chairpersons and vice-chairs.

Access to information and independent advice

The Board or Board committee is entitled to seek any information it requires from any Group employee or from any other source. It is entitled to meet with employees and third parties without the presence of management and may request employees and third parties to attend Board meetings.

Procedures are in place, through the Chairman and the Company Secretary, enabling the Directors to have access, at reasonable times, to all relevant Company information and to executive management, to assist them in the discharge of their duties and responsibilities and to enable them to take informed decisions. The Directors are also entitled to obtain independent legal, accounting or other professional advice at the Company's expense. The Board may conduct or direct any investigation to fulfill its responsibilities and can retain, at the Company's expense, any legal, accounting or other services that it considers necessary from time to time to fulfill its duties.

A committee may consult with a professional adviser or expert at the cost of the company if the committee considers it necessary to carry out its responsibilities. There is also provision for direct access to committees by management and the external auditor. The Group Director, Internal Audit and Group Chief Risk Officer have a direct reporting line to the Audit & Risk committee and an administrative reporting line to the Chief Executive Officer and have a standing invitation to attend all Audit & Risk committee meetings. The external auditor may request to meet with the Audit & Risk Committee and has a standing invitation to attend all Audit & Risk Committee meetings. The external auditor may also request to meet with the Board and the Chair of the Audit & Risk committee.

As well, the Company Secretary provides advice on governance matters and support to the Board, Committees and Directors. The Company Secretary is accountable to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

Directors are expected to strictly observe the provisions of the statutes applicable to the use and confidentiality of information.

Performance Assessments of Board Directors and Board Committees

The Board reviews its performance, and the performance of individual Directors, every year. Every third year, this process is led by an external consultant, and in those years when a consultant is not engaged, the Chair leads the assessment of the Board and each Director. The process may involve the completion of questionnaires and meetings with individual Directors. The Chair provides feedback and conducts a session with the full Board to discuss feedback about the Board as a whole.

In February 2023, the Board undertook an assessment of its performance for the year 2022 through an external consultant where areas of strengths and focus were identified, and an action plan of continuous improvement agreed upon. The report of the evaluation was presented to the Central Bank of Kenya in March 2023 in line with regulatory requirements.

The detailed questionnaire reviewed the following areas:

- Structure and Composition (Size and Diversity; balance of Board members; mandate of Board Committees; succession planning; active engagement with management).
- Role and responsibilities (Clarifying the role of the Board and other organs of governance; balance between conformance and performance roles on the Board; expectations of various stakeholders: conflict of interest and whistle blowing policy; protection of shareholders' rights and process of evaluation of Group Chief Executive Officer's performance).
- Key functions and processes (Key work processes; decision-making procedures).
- Information (Quality of information received; how the information is received and acted upon).
- Meetings (Agenda; frequency and quality).
- Relationships (Harmony; style; quality of decision making and teamwork).
- Development (Skills enhancement).
- Overall performance and contribution (Impact of the Board).

The recommendations of the consultant based on the outcome of the evaluation included:

- Undertaking regular skills assessment to identify gaps and training needs that exist based on current and emerging trends.
- Execute the 2022 self-assessed Director training needs by developing a Director education program to be overseen by the Chairman of the Board and supported by the Group Company Secretary.

The recommendations will be implemented during the year 2023.

Governance Audit

The CMA Code provides that issuers of securities to the public are required to undertake periodic governance audits. Following extensive stakeholder consultation to consider the frequency, cycle, cost and scope of governance audits, the Capital Markets Authority (CMA) advised all issuers of a revision in the cycle of governance audits to at least once every two years with the option of CMA increasing or decreasing this frequency on a risk-based approach.

In line with the CMA Code, a governance audit was conducted on the Company in December 2021 by C. S. Bernard Kiragu of Scribe Services who issued an unqualified report. The audit confirmed that the Board has put in place a sound governance framework, which complies with the legal and regulatory framework and in line with global best governance practices for the interest of stakeholders.

The next governance audit will be undertaken in December 2023.

Corporate Governance Self-Assessment Report

During the year 2022, the Capital Markets Authority assessed the status of implementation of the CMA Code by the Company for the year ended 31 December 2021. The assessment was based on a review of the following areas: commitment to good corporate governance; board operations and control; rights of shareholders; stakeholder relations; ethics and social responsibility; accountability, risk management and internal control; transparency and disclosure. The overall rating awarded to the Company was a leadership rating of 84% up from 81% for the year 2020. This is a testament to the Board's continued commitment to sound corporate governance practices. The Company continues to implement the recommendations received from the CMA to improve its level of implementation of the recommendations under the CMA Code.

SCRIBE Services

GOVERNANCE AUDITOR'S REPORT

Statement of the Responsibility of Directors

The Board is responsible for putting in place governance structures and systems that support the practice of good governance in the organization. The responsibility includes planning, designing, and maintaining governance structures through policy formulation, which is necessary for efficient and effective governance of the organization. The Board is also responsible for ethical leadership, risk governance and internal control, transparency and disclosure, equitable protection and exercising of members' rights and obligations, compliance with laws and regulations, sustainability, performance management and strategy formulation and oversight.

The Board of Directors of KCB Group Plc ("the Company") is committed to the highest standards of Corporate Governance and strives for continuous improvement by identifying any loopholes and gaps in the Company's governance structures and processes. It is on this premise that the Board commissioned a governance audit, with the aim of ensuring that all processes necessary for directing and controlling the Company are in place.

The Directors have therefore ensured that the Company has undergone a governance audit for the year ended 31 December 2021, and obtained a report, which discloses the state of governance within the Company.

Governance Auditor's Responsibility

Our responsibility is to express an opinion on the existence and effectiveness of governance instruments, policies, structures, systems and practices in the organization, in accordance with the best governance practices as envisaged within the legal and regulatory framework. We conducted our audit in accordance with the Institute of Certified Secretaries' Governance Audit Standards and Guidelines, which conform to global standards. These standards require that we plan and perform the governance audit to obtain reasonable assurance on the adequacy and effectiveness of the organization's policies, systems, practices and processes. The audit involved obtaining audit evidence on a sample basis. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Being part of a continuous audit process, the Auditor has assessed the continual application of recommendations from previous audits and has ensured that the current recommendations are in line with the Group's vision and mission in order to ensure that the Board's goals, structure and operations are consistent with the latest developments in Corporate Governance. The structure of the report, findings and recommendations will therefore focus on providing a progressive approach following the seven steps of governance auditing.

Opinion

In our opinion, the Board has put in place a sound governance framework, which is in compliance with the legal and regulatory framework and in line with global best governance practices for the interest of stakeholders. In this regard, we issue an unqualified opinion.

CS. Bernard Kiragu, ICPSK GA. No 159
For: Scribe Services Registrars Limited

Date: 29 April 2022

Director Independence

The Board recognizes the importance of independent judgement and constructive debate on all issues under consideration. Directors are expected to bring views and judgement to Board deliberations that are independent of management and free of any business relationship or circumstances that would materially interfere with the exercise of objective judgement, having regard to the best interest of the organization and its stakeholders.

The Board Charter, prepared in line with the CMA Code and the Prudential Guidelines issued by the Central Bank of Kenya, provides that a majority of its directors should be independent.

In accordance with the Board Charter, the Board only considers directors to be independent where they are independent of management and free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the director's capacity to bring an independent judgement to bear on issues before the Board and to act in the best interest of the Company or the shareholders generally.

During the year 2022, except for the directorship held by the Cabinet Secretary, National Treasury, all other non-executive directors of the company were considered independent.

Conflict of Interest

All Directors of the Company must avoid any situation which might give rise to a conflict between their personal interest and that of the Group. The Directors are each responsible to notify the Group Chairman and the Group Company Secretary of any actual or potential conflict of interest situations as soon as they arise. The Articles of Association permit the Board to authorise the conflict, subject to conditions and limitations as the Board may determine.

The Board has formal procedures for managing conflicts of interest in accordance with the Companies Act 2015 and the CMA Code. Directors are required to declare a conflict of interest or a material personal interest in any matter concerning the Company immediately for the Board to review. Declaration of conflicts of interest is also a standard agenda item which is addressed at the onset of each Board and Committee meeting. Any Director with a material personal interest in any matter being considered during the Board or committee meeting will not vote on the matter or be present when the matter is being discussed and considered.

The Board also requires all Directors to disclose on appointment and annually any circumstance which may give rise to an actual or potential conflict of interest with their roles as Director.

No incidences of material conflict of interest were identified for any of the Directors.

Subsidiary Boards

In line with the provisions of the Prudential Guidelines issued by the Central Bank of Kenya, KCB Group Plc as the majority shareholder in all the subsidiaries within the Group has the overall responsibility to ensure adequate corporate governance is in place across the Group.

The subsidiaries operate as separate legal entities in their respective countries. Each subsidiary has a Board of Directors that has oversight functions over the management of the subsidiary.

Each subsidiary Board comprises of a majority of non-executive directors. The Group Board Charter requires that country Boards be guided by the same governance principles as the parent company. The boards of directors of the subsidiaries are accountable to the subsidiaries' shareholders for the proper and effective administration of the subsidiaries in line with overall Group direction and strategy. These Boards also have statutory obligations based on local legislative requirements in their respective countries. In the event of any conflict with Group policies, the local laws prevail.

The Group Board's confidence in the activities of its controlled entities stems from the policies put in place that are adopted across the subsidiary companies as well as the quality of directors on those subsidiary boards. At least one member of the KCB Group PLC Board sits on each of the subsidiary boards as a member.

Subsidiary Governance Model

With regard to the governance of its subsidiaries, KCB Group adopts a dual reporting model. The subsidiary's corporate governance is administered both by the local Board and the Group Board concurrently.

> Legally, the country board has ultimate responsibility for the subsidiary, but KCB Group, as the majority shareholder (in almost all cases holding 100%) and being overall responsible for the strategic direction of the Group, has a duty to ensure that the subsidiary is run properly. As a result, the subsidiary Managing Director has dual reporting lines to the local Board and to KCB Group's Executive Management. The local Board has access to the KCB Group governance and management structure. The local Boards are legally constituted, and directors' duties comply with the host country's legal system.

The subsidiaries at all times comply with the Group Board Charter, subject only to local legal requirements.

Respecting Our Shareholders and Investors

KCB Group is committed to giving our shareholders appropriate information and facilities to enable them to exercise their rights effectively. We are also committed to making sure shareholders and the investment community have appropriate information to make investment decisions.

The ways in which we do this include:

- **Our announcements to the Nairobi Securities Exchange and media publications –** announcements are made in accordance with the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002. All financial results are published on a quarterly basis in national publications.
- **The Investor Relations page on our website –** this provides a central point for shareholders to access information including investor presentations, reports and information about the annual general meeting.
- **Our annual general meeting –** shareholders are invited to attend and participate in our annual general meeting each year.
- **Our investor relations team –** our team is committed to engagement with the investment community, telling our story and communicating our strategy.
- **Our financial reporting and statutory reporting and this corporate governance statement –** the integrity of financial reporting is discussed in more detail in a later section.
- **Our appointed shares registrar -** All shareholders' queries, application for registration of transfer of shares of the company, immobilization of shares and dividend queries as well as the collection of share certificates and dividend cheques are handled by the company's appointed shares registrar – Image Registrars Limited. The registrar can be reached at their offices on the 5th Floor, Absa Plaza, Loita Street, P. O. Box 9287 – 00100, Nairobi or through their e-mail address kcbshares@image.co.ke and through their telephone numbers 0709 170 000, 0724 699 667, 0735 565 666.

KCB Group is committed to providing shareholders with information that is timely, of high quality and relevant to their investment, and to listen and respond to shareholder feedback.

Communication and Periodic Continuous Disclosure

• Key shareholder communication include the Group's Annual Integrated Report, the Group Sustainability Report and full year, half-yearly and quarterly financial results. The Group additionally posts all material information on its website www.kcbgroup.com. Shareholders are encouraged to visit the website for general information about the Group and to be able to view financial reports and results briefing presentations.

The Group additionally releases material information to the Capital Markets Authority and the Nairobi Securities Exchange as well as the Central Bank of Kenya in line with all disclosure requirements in the Capital Markets Act, the Banking Act, the Prudential Guidelines as well as all other relevant regulations. Being cross listed in the region, material information is also released to the securities exchanges in Tanzania, Uganda and Rwanda.

Annual General Meetings

The annual general meeting provides an opportunity for shareholders to engage with us, and we strongly encourage this. Shareholders can ask questions before the meeting. At the meeting, shareholders will have a reasonable opportunity as a whole to ask questions about or make comments on the management of the Group or the business of the meeting

The Board has always placed considerable importance on effective communication with its shareholders. It ensures that the rights of shareholders are always protected. Notice of meetings and all statutory notices and information are communicated to shareholders including details on how to vote and ask questions are set out in the notice of the annual general meeting. The notice is published 21 days prior to the meeting through print and digital channels in line with the Articles of Association.

Shareholders who are unable to attend the AGM in person are encouraged to vote on the proposed resolutions by appointing a proxy prior to the AGM. Voting is conducted by poll on all resolutions.

KCB Group held its AGM in 2022 via virtual means. The use of virtual meeting technology by KCB Group during the AGM held in June 2022 allowed a larger number of shareholders to participate in the AGM regardless of their geographic location. 17,375 shareholders attended and voted on the resolutions during the AGM compared to 4,905 shareholders who attended the physical meeting held in May 2019.

Shareholders were given an opportunity to submit written questions to KCB Group before the AGM and were also able to participate in the live KCB Group AGM vote and ask questions online. All resolutions were submitted to a poll and the results published in the local dailies within 24 hours following conclusion of the AGM.

Investment Community

KCB Group is committed to engagement with the investment community and consistently shares our story and communicates our strategy. Our investor relations program includes liaising with institutional investors, brokers, analysts and rating agencies including presentations during our announcement of our annual results. The investor relations team is responsible for drafting certain market announcements, providing feedback to management and the Board on market views and perceptions about the Group and coordinates roadshows including half-year and full-year results announcements.

The investor relations team has the primary responsibility for managing and developing the Group's external relationships with existing and potential institutional equity investors. Supported by the Group Chief Executive Officer and the Group Finance Director, they achieve this through a combination of briefings to analysts and institutional investors.

Policies and Codes of Conduct

KCB Group maintains and has in place policies and codes of conduct that captures not only our legal obligations, but also the reasonable expectations of our stakeholders, including our customers. These policies apply to all employees and Directors of the KCB Group, and to anyone working on the Group's behalf, including contractors and consultants. The Group adopts zero tolerance to all forms of corruption, bribery and unethical business practices.

The Group has in place a suite of policies, procedures and practices to promote a culture of compliance, honesty and ethical behaviour including in relation to anti-money laundering and counter-terrorism financing, whistle blower protection and conflicts of interest.

Our Code of Ethical Conduct

Our Code of Ethical Conduct (the Code) sets the expectations for all our employees, executives and Board members to make conduct decisions that are lawful, ethical and respectful to deliver fair outcomes for customers, colleagues, partners and stakeholders. It covers a range of areas including personal conduct, integrity, honesty, transparency, accountability, fairness and prevention of corruption.

The Code provides clear guidance to our people regarding their responsibility to demonstrate high standards of corporate and individual behaviour when conducting the business of the Group. It provides a framework for how our people can apply good judgement by thinking before acting, applying Group policies and procedures, considering the consequences of their decisions and, speaking up when needing help. It emphasizes the importance of making the right decisions and behaving in a manner that builds respect and trust in the organization. The Code sets out clear behavioural requirements and where these are not met, there are consequences.

The Code is periodically reviewed and Code of Ethical Conduct awareness and learning programs and sessions are conducted.

Conflicts of Interest

The Code sets out the approach to follow to ensure the Group complies with its regulatory obligations and other related Group policies when dealing with conflicts of interest. The Conflict of Interest Procedures provides guidance to our people to identify and effectively manage and monitor any actual, perceived or potential conflicts which may arise.

Whistle-blower program

KCB Group does not tolerate fraud, corrupt conduct, bribery, unethical behaviour, legal or regulatory non-compliance or questionable accounting or auditing by employees, Directors, customers and contractors. KCB Group is committed to a culture that encourages all people to speak up about issues or conduct that concerns them.

The Code supports a culture of integrity and ethical behaviour and sets out a clear process and the protections available for those who want to raise a concern regarding suspected misconduct. This could include concerns related to financial irregularity, anti-bribery and corruption, internal accounting controls, questionable accounting or auditing matters.

The KCB Group whistle-blower program encourages the reporting of any wrongdoing in a way that protects and supports whistle-blowers. The program provides confidential and anonymous communication channels to raise concerns. The confidential and anonymous communications channels are supported and monitored independently by Deloitte details of which are provided below:

Telephone Communication:

Toll free number: 0800 720 990 (Kenya)

Toll free number: 0800 110 025 (Tanzania)

International calls: +27 315 715 795 (Uganda, South Sudan, Rwanda and Burundi)

E-mail Communication: kcb@tip-offs.com

All people are encouraged to raise any issues involving illegal, unacceptable or inappropriate behaviour or any issue that would have a material impact on the organization's customers, reputation, profitability, governance or regulatory compliance.

There is zero tolerance for any actual or threatened act of reprisal against any whistle-blower and the Group takes reasonable steps to protect a person who makes disclosure of any inappropriate behaviour including taking disciplinary action potentially resulting in dismissal for any person taking reprisal against a whistle-blower.

Insider Dealing Policy

Our Insider Dealing Policy imposes restrictions on trading in the Group's securities by Directors, employees and contractors (and their associates) who are in possession of price sensitive information. They are also prohibited from passing on inside information to others who may use the inside information to trade in the company's securities. In addition, a blackout period on trading is imposed on Directors, employees and contractors (and their associates) starting 1st January, up to and including the date of announcement of annual results and further from 1 April, 1 July, and 1 October of any year up to the date of announcement of quarterly results such date being inclusive and ending on the next business day after each respective results announcement. The Board may also impose additional restrictions.

Anti-bribery and Corruption

The Group has strong standards of integrity, ethics and conduct and supports this by complying with relevant Anti-Bribery and Corruption legislation. Therefore, our people will not directly or indirectly give, offer or request a bribe and will not engage in corruption. Our people will not accept directly or indirectly a benefit (monetary or otherwise) given, offered, authorised, accepted or requested as an inducement for action which is illegal, unethical or a breach of trust. We will not accept secret commissions (monetary or otherwise) from a third party, in return for agreeing to depart from our internal policies and procedures or legal obligations. Political donations may give rise to perceptions of cash for influence. Employees, Directors or third parties acting on behalf of the Group must not make any political donations on behalf of the Group.

Integrity of Financial Reporting

The Group develops and maintains a risk management culture that aids in the creation of risk awareness and promotes appropriate behaviour and judgement in connection with risk taking. In the context of corporate governance, the Board supports in ensuring effective risk management, promoting appropriate risk taking and ensures that emerging risks and risk-taking activities are identified, assessed, escalated and addressed in a timely manner.

The risk management culture instilled at the Group emphasizes the importance of:

- Risk reward to ensure compensating returns to the organisation for any risk taken,
- Effective system controls,
- Violation of risk appetite limits, and
- Cultivating integrity.

Financial Reporting

The integrity of financial reporting to Shareholders is protected through the following elements.

- Board oversight and responsibility
- Oversight from the Audit & Risk Committee
- External Auditor

Board

The Directors are responsible for assessing whether the financial statements and notes are in accordance with the Companies Act, 2015, comply with accounting standards and give a true and fair view of the financial position and performance of the Group. A Directors' declaration to this effect is included in the annual financial report.

Audit & Risk Committee

The Audit & Risk Committee assists the Board by providing oversight of the Group's financial reporting responsibilities including external audit independence and performance. The Audit & Risk committee responsibilities include the following:

- Reviewing the half-year and full-year statutory financial reports for recommendation to the Board.
- Reviewing significant accounting estimates and judgments used for the preparation of the financial reports.
- Reviewing and approving any new or proposed changes in Group accounting policies.
- Monitoring developments in statutory reporting and accounting and disclosure requirements.
- Reviewing the effectiveness of the Group's internal control and risk management framework.

External Auditor

The audit or review by the external auditor provides a further level of protection of the integrity of the financial statements. The Audit & Risk committee oversees the external audit function. This includes reviewing and approving the external audit plan and engagement and assessing the performance of the external auditor.

Whereas the directors are responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Company, the external auditor examines and gives their opinion on the reasonableness of the financial statements. Independence of the external auditor is important to the integrity of the audit function. The external auditor is invited to meetings with the Audit & Risk committee from time to time without management or others being present. The external auditor reports independently and directly to the Board at the end year Board meetings.

Risk Management Governance

Risk is an inherent part of the KCB Group's business, and the effective management of risk is a fundamental enabler of our strategic plan. The strategy for managing risk is aimed towards customer protection and enabling sustained performance.

This is achieved through the Risk Management Framework of the Company. The Group is exposed to both financial and non-financial risks and is committed to having risk management policies, processes and practices that support a high standard of governance. This enables management to undertake prudent risk-taking activities.

The Board oversees the risk management strategy and framework taking into account the risk appetite, prudential capital requirements and strategic and business priorities of the Group. This includes setting and reviewing the risk appetite, monitoring the effectiveness of the risk management framework and making changes to it.

The following Board committees assist the Board in the oversight of risk:

- Audit & Risk Committee: In relation to financial reporting and taxation risk and further in relation to risk appetite and risk management strategy.
- Human Resources & Governance Committee: In relation to remuneration risk.

At KCB Bank Kenya subsidiary level, the Credit Committee reviews issues relating to credit risk appetite and credit risk management strategy.

The following management committees also assist in relation to risk management:

- Executive Committee
- Operational Risk Committee
- Asset and Liability Management Committee
- Management Credit and Risk Committee

Risk Management Framework

The Group's risk management function has designed and oversees a Risk Management Framework to allow the Group identify, measure and manage risks within a Board-approved risk appetite.

The Group's risk management is based on the 'three line of defence' model. The overarching principle of the model is that risk management capability must be embedded within the business to be effective. These act as the foundation for effective risk management across the Group.

The Risk Management Framework covers all systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and control or mitigate both internal and external sources of material risk. The Risk Management Framework is regularly reviewed in light of emerging risks arising from the changing business environment, better practice approaches and regulatory expectations.

Directors Remuneration

The Human Resources & Governance Committee of the Board is responsible for setting and administering the non-executive Directors remuneration policy. The aggregate value of emoluments paid to Directors for services rendered during the year 2022 is disclosed in Note 39 to the Financial Statements.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which Directors acquired benefits by means of acquisition of the Company's shares. Additional details are provided in the Directors' Remuneration Report on pages 115 to 118 of the Integrated Report.

Risk Management

KCB is exposed to internal and external risks as part of its ongoing operations to create and maintain value for stakeholders, and hence managing risk is imperative in supporting the execution and realization of its strategy. These risks are managed as part of the business model, through alignment of risk appetite to changes in the operating environment, instilling a risk-aware culture throughout all levels of the Group, proactively and continuously adapting, and improving our risk management capabilities. This is achieved through the deployment of the Enterprise Risk Management Framework which provides the Group with an effective mechanism for developing and embedding risk policies and risk management strategies aligned with the risks faced by its businesses.

KCB's risk management strategy is to maintain the Group's stability and support the achievement of its business objectives. These objectives are achieved while meeting the predefined risk appetite, the policy and the limitations deriving therefrom, which form the boundaries for the Group's business activity.

The process for risk identification, measurement and control is integrated into the overall framework for risk governance. Risk identification processes are forward-looking to ensure emerging risks are identified and mitigated appropriately.

We manage risk by:

- Taking a holistic forward-looking view to identify the risks we face.
- Assessing threats and opportunities in our operating environment
- Being consistent in our approach to risk and capital management, with guidance from our risk management framework

The Risk Management function supports the Board in formulating risk appetite, strategies, policies, and limits. It provides review, oversight, and support functions throughout KCB on risk related items.

Changes in the Risk Environment and their effect on the Group

The coronavirus outbreak in January 2020 and the substantial uncertainty regarding its various implications still constitutes a significant global macroeconomic risk. It is difficult to assess the future economic developments, due to the substantial uncertainty regarding the extent of its impact on the trajectories of all world countries. KCB's risk profile is examined on a quarterly basis, as part of the risk exposure report reported to the Board of Directors each quarter. The military confrontation between Russia and Ukraine, which began on February 24, 2022, compounds the potential for volatility and uncertainty due to global economic processes. The war continues to cause the rate of inflation to rise rapidly around the world and trigger price hikes in the region as well. Consumers' and businesses' trust could be indirectly harmed, not only due to higher prices, but also due to weakness in financial markets and impairment of the asset portfolio. The Bank is following these developments and will take any measures needed. The risk profile is examined, inter alia, by using a methodology for classifying the severity level of exposures to the various risks. The methodology is based on quantifying the effect of various scenarios being realized on the Group's capital, i.e., its stability and includes "expert assessments" by relevant functions in the Bank.

1. Risk Management process

Risk Management Process

The Risk Management Framework is illustrated below:

i. Risk identification, assessment, and management

Effective risk management requires a comprehensive process to identify risks and assess their materiality. Risk identification and assessment is performed on an ongoing basis through transaction assessment, monitoring and reporting current trends and analysis, assessment of new products and initiatives, control testing and process reviews. This helps address major current or emerging threats to the business plan and strategic objectives.

Risks are captured and measured using consistent methodologies and expressed either qualitatively or quantitatively against the defined overall risk appetite as well as the specific limits or triggers. The measurement of risks includes the application of stress testing and scenario analysis and considers whether relevant controls are in place before risks materialize.

In quantifying risk, the Bank generally endeavors to aggregate risks at the entity level or the Group as a whole. Accordingly, risk quantification and measurement are performed consistently at all operating entities in the Group, to the extent possible based on appropriate, accepted methods and models. A range of tools or measurement methods are used, including expert assessments to examine exposures from different perspectives.

Where set thresholds are breached, clear actions are put in place including time frames required to resolve the breaches to bring risk within acceptable tolerance levels. All key controls are recorded and assessed on a regular basis, in response to triggers. Control assessments consider both the adequacy of the design and operating effectiveness of controls. Where a control is not effective, the root cause is established, and action plans implemented to improve control design or performance. Control effectiveness against all inherent risks is reported and monitored.

Effective risk identification and assessment forms the foundation for successful and efficient risk response and mitigation. In today's highly interconnected and volatile world, dominated by new technology and emerging business models, forward-looking risk management is imperative as the forces and trends that shape our future have increasingly not manifested themselves before while historical data does not accurately predict the future. Increasingly, risks combine, form clusters, or affect each other. In view of this, the Group undertook a Dynamic Risk Assessment exercise to supplement our risk assessment methodologies. This helped the Bank determine the most expected future risk combinations, combinations with extreme outcomes, influential risks, and a sense of how the risk might spread. In this way, we are able to effectively respond to risk by efficiently focusing and allocating resources where it is needed most.

ii. Risk Monitoring and Reporting

The Group actively monitors the risk control measures by following the trends of the risks and their risk levels. Risk reporting provides senior management with the information they need to respond to and manage risks.

2. Risk Appetite

The Group's risk appetite outlines the boundaries for its business activity, both on an ongoing basis and under stress scenarios. The risk appetite is adjusted to KCB's strategy and to the boundaries of its current and future business focal points. The risk appetite addresses KCB's risk identification, measurement, control, and mitigation practices, which have direct impact on the Group's residual risk profile.

The Board reviews and approves our risk appetite on an annual basis, or more frequently in the event of unexpected changes to the risk environment, with the aim of ensuring that they are consistent with our Group's strategy, business and regulatory environment and stakeholders' requirements.

The Group's risk appetite statement covers the scope and types of aggregate risk the Bank is willing to take in order to achieve its business goals. Quantitative and qualitative measures are set, based on forward-looking assumptions which reflect the Group's aggregate risk appetite statements.

Reports relating to our risk profile as compared to our risk appetite and strategy and our monitoring thereof are presented quarterly to the Board. In the event that our desired risk appetite is breached, a predefined escalation governance matrix is applied so that these breaches are highlighted to senior management for remediation.

The Group's risk-appetite framework includes a statement of risk appetite and risk capacity, risk limits, and descriptions of the roles and responsibilities of those charged with the implementation and control of the risk-appetite framework. The risk-appetite framework articulates the extent of the Group's willingness to take risk in line with its business strategy and risk capacity. Our framework explicitly defines the boundaries within which Management is expected to operate to realize the business strategy of the Group. Status against Risk Appetite including the status of breaches and remediation plans where applicable is reported to the Board Risk Committee and the senior management Risk Committees.

The risk appetite forms the basis for establishing our business strategy, resource allocation, and earnings plans as well as monitoring the operating status, thus integrating risk management and business strategy in order to achieve disciplined risk-taking that achieves an optimal balance of risk and return.

3. Risk Governance

The Group has a structure of decision-making bodies that cover all significant risks and perform control and oversight of risk decisions. Risk management is performed based on a global view of the Group's activity, with due attention to the activities in subsidiaries with potential significant exposure to the Group. Risks are managed separately by each subsidiary in the Group, according to policies formulated by each subsidiary's Board of Directors. The subsidiaries manage their risks based on the strategy and policy of the Group, with adjustments according to the country specific circumstances and or regulations, which are reported to the parent company.

The Board of Directors has instituted a culture of compliance and risk management which is articulated through the Group's code of conduct, values, policies, procedures, training, and the risk appetite statement. The Board provides oversight on the management of risks and approves the strategies, policies and appetite statements that govern the Group's operations.

Governance is maintained through delegation of authority from the Board to individuals through the management hierarchy. Senior executives are supported where required by a committee-based structure which is designed to support an effective information escalation path and support effective decision-making. The interaction of the Board and senior management governance structures relies upon a culture of transparency and openness that is encouraged across the Group by both the Board and senior management. This ensures that escalated issues are promptly addressed, and remediation plans are initiated where required.

Line managers are directly accountable for identifying and managing risks in their areas of operation, ensuring that business decisions strike an appropriate risk and reward balance and are consistent with the Group's risk appetite. In the subsidiaries, the Heads of Risk and Compliance report independently to the respective Board Committees on the effectiveness of the tools used to mitigate risk.

The Board of Directors are responsible for delineating the overall risk management strategy and supervising the risk management framework of the Group, directly or through the Risk Committee. Main duties of the Board of Directors around risk management include:

- Approving the risk appetite and risk capacity framework of the Group.
- Approving a risk-management policy consistent with the risk appetite framework, including the establishment of risk limits in the various areas of activity.
- Providing clear guidance to senior management with regard to risk management, based on the recommendations of the executive committee, headed by the Group CEO, and ensuring that senior management takes the necessary actions in order to identify, measure, monitor, and control risks.
- Approving methodologies for risk assessment and control, and for the allocation of capital in respect of risks.
- Providing oversight over the implementation of the established risk-management policy; examining the actual risk profile and examining the processes and actions that the Bank must apply to comply with all regulatory directives concerning risk management.
- The Board reviews the Group's internal control policies and ensures that reasonable steps are taken by management to ensure that adequate systems are being maintained. The Board has put in place a comprehensive ERM framework to identify all key risks, measure these risks, manage the risk positions, and determine capital allocations.

The Risk Division also operates other management committees, chaired by the Group Chief Executive Officer:

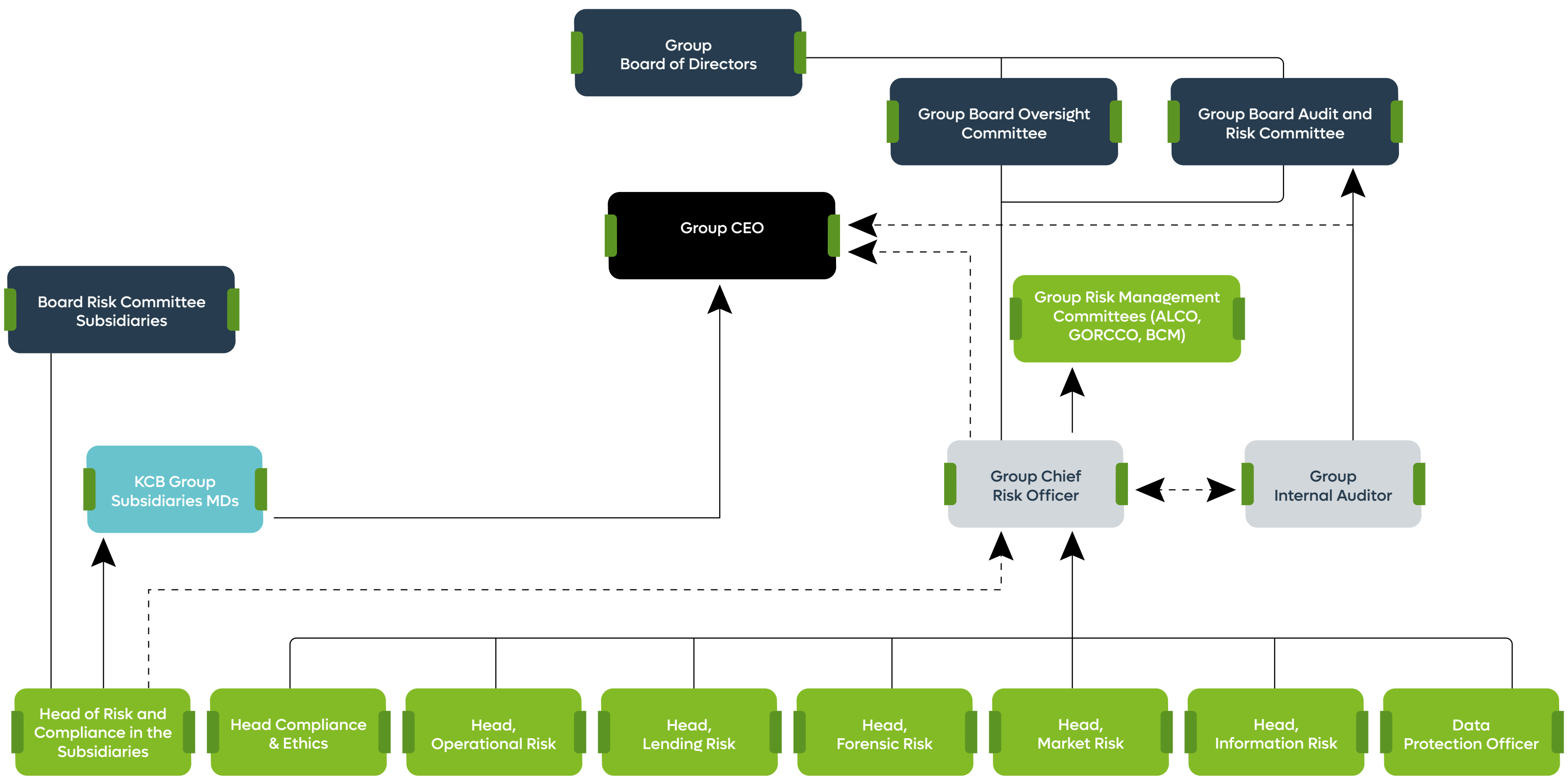
Group Operation Risk and Compliance Committee (GORCCO) – responsible for reviewing risk and compliance issues to ensure all material risks inherent in the activities of the Group are identified and managed in accordance with the risk appetite.

Group Assets and Liabilities Committee (ALCO) – reviews pricing of assets and liabilities to ensure loan mix and yields are optimized, funding costs minimized, while keeping the balance sheet structure consistent with the current asset-liability strategy of the Group.

Group Business Continuity Management Committee – is a cross-functional team of key stakeholders which includes the senior managers with key support roles and the appropriate business owners of critical functions, who together have the responsibility for the overall management of the business continuity function on a day-to day basis.

Group Risk Management Organizational structure

The below diagram depicts the Group Risk management structure.



Three lines of defense model

Effective risk management requires firm-wide risk governance. Our risk and control structure is based on the three lines of defense model. Each line has a specific role and defined responsibilities, with the execution of tasks being distinct from the control of these same tasks. The three lines work closely together to identify, assess, and mitigate risks.

1. The **first line** of defense includes the business units within the divisions, including support and operational divisions, that create or take risks, as well as the internal control units within the divisions that provide internal control over the risk creators and risk takers. The management of the business lines have primary responsibility for risk decisions, that is identifying, measuring, monitoring, and controlling risks within their areas of accountability. They are required to establish effective governance and control frameworks for their business to be compliant with Group policy requirements, to maintain appropriate risk management skills, mechanisms, and toolkits, and to act within Group risk appetite parameters set and approved by the Board.

2. The **second line** of defense consists of the control units at the Risk Management Division, which is independent of the business divisions. This line is responsible for providing oversight and independent constructive challenge to the effectiveness of risk decisions taken by business management, providing proactive advice and guidance, reviewing, challenging, and reporting on the risk profile of the Group and ensuring that mitigating actions are appropriate.

3. The **third line** of defense consists of Internal Audit, which operates independently and objectively. Its goals include assisting the organization in achieving its goals through supervision and ensuring that the instructions of the Board of Directors and senior management are implemented and making recommendations for the reduction of risks through improved controls.

1 Line of Defence

Business Owner

Responsible and accountable for the day to day identification, control and management of risks in their functional areas so as to stop loss or risk materializing as they provide products and services to customers. Accountable for the operationalization of strategies in a way that limits risk whilst also ensuring compliance with regulation, policy and procedures.

2 Line of Defence

Risk & Compliance Management

Engage continuously with 1st line to ensure that processes and controls are working as expected. Provide oversight and training on risk management strategies. Assist 1st line to identify, review and track to closure any existing and emerging risk issues. Monitor and report on risks & compliance with regulation, policies & processes. Monitor controls against the early warning indicators and Board approved limits.

3 Line of Defence

Internal Audit

Review and provide independent and objective assurance to the Board and senior management on the overall effectiveness of the internal control framework at both 1st line and 2nd line. Provide an advisory role to management.

Regulation, Stakeholder, Operating Environment

4. Stress Testing

KCB undertakes scenario analysis at various levels under a forward-looking approach that helps the Group anticipate potential impacts on the financial robustness of the Group, taking into consideration the existing balance sheet, business plans, current economic conditions, and future outlook.

KCB Group implements a set of internal stress tests, updated on a regular basis, with the aim of assessing key risk focal points, taking into account various developments in the Bank's operating environment. Where indicators of the stress test fall below the necessary level, the Group reconsiders and revises its appetite and business plans.

Our objectives for stress testing include:

- Inform the setting of risk appetite by assessing the underlying risks under stress conditions.
- Identification of risk concentrations and potential weaknesses in the Bank's portfolio.
- Examination of the effect of strategic decisions of the Bank.
- Integration in the planning process and examination of the effects of the business plan on potential exposures.
- Examination of the financial robustness of the Bank and evaluation of the potential damage that may be caused by extreme events of various types.
- Analysis of the sensitivity of the Bank to shocks or exceptional but possible events.
- Assessment of the materiality of the various risks.
- Examination of the Bank's compliance with its risk appetite and risk capacity.
- Support for the business divisions in understanding the risk map of the various areas of activity and sectors.
- Support for the Internal Capital Adequacy Assessment Process (ICAAP) and for the formulation of contingency plans in order to minimize the damage of extreme events.
- Ensure the Group's compliance with all of the regulatory and internal limits.

5. Risk Culture

Effective risk management requires a strong, robust, and pervasive risk culture where every Bank employee understands and recognizes their role as a risk manager and is responsible for identifying and managing risks. KCB maintains a risk culture that aids awareness of risk and appropriate behavior and judgment in connection with risk taking in the context of corporate governance, supporting effective risk management, promoting appropriate risk taking, and ensuring that emerging risks are identified, assessed, escalated, and addressed in a timely manner.

The risk culture embedded at the Group emphasizes the following principles:

- Direct responsibility of all employees for risks that they take within their authority.
- Demonstration of highest levels of integrity, transparency, and proactivity in disclosing and managing all types of risks.
- Identification and assessment of current and emerging risks, open discussion of these and prompt response actions.
- Achieving a proper balance between risk and reward, subject to the risk appetite.
- Deploying an effective system of controls consistent with the size and complexity of the Bank.
- Providing oversight and challenge and taking decisions in a timely manner.
- The ability of the available tools to measure risks correctly, and the justifications for taking risks.
- Monitoring violation of limits and divergence from established policies and applying them..
- Proportional disciplinary proceedings, as necessary.

The below diagram depicts the cycle that supports our strong risk management culture:

6. Our current risk priorities

This section describes the specific risks within our material risk types where the Board and the Executive Leadership Team are focusing their efforts. It includes a mix of existing and emerging risks that could materially impact our ability to serve our customers or deliver our strategy. Regarding the material risks, the Risk Committee of the Board of Directors, and management bodies receive reports, and multifaceted discussions are held to ensure appropriate risk control measures and risk responses are put in place.

i. Cyber security

Cyberattacks are on the rise with the advancement of digitalization throughout the world and with hackers continuing to enhance their attack capabilities. This trend is expected to continue in the coming years, and the financial sector will remain a primary target. Given KCB's increasing reliance and adoption of digital systems, cyber threats make cyber security one of the Group's top risks. We consider cyberattacks to be one of the top risks for our business, and we are continuously pressing forward with cybersecurity measures that can withstand, detect, and rapidly react to cyberattacks, while constantly evolving and improving its defences.

Cybersecurity is built into our culture to foster crucial behaviors that protect the Group and our customers' information. This includes provision of training to all staff, including rolling out mandatory cybersecurity training courses, and awareness initiatives on digital channels help customers to stay safe online.

The Group has also invested extensive resources (both human and technological) to strengthen its information security and cyber defense system, to cope with the sophistication of cyber threats. The Group operates cyber defense processes to minimize the risk of system penetration, unauthorized access to information systems, and materialization of attacks, and to ensure the correctness, availability, and confidentiality of data.

The Group has in place a Cybersecurity policy and a Cybersecurity Incident Response Plan that ensures it is prepared to manage cyber incidents in an effective and efficient manner. The Plan establishes incident handling, response, and recovery capabilities. It determines the appropriate response for cybersecurity incidents that arise, and is applicable to all staff, management and third parties such as consultants, contractors, and service providers. The plan also covers all supporting applications, processes and systems and any other cyber facing assets and information as well as establishing a team and methodology to handle such incidents.

The Group continues to enhance cyber security capabilities across its entities and continually evaluate potential exposures from prevalent attack types to ensure that controls are strengthened to minimize the likelihood and impact of such attacks.

Some of the mitigants put in place include:

- Periodic system security assessments such as Red Team assessments.
- 'Defense-in-Depth' strategy providing multiple lines of defense.
- Prevention of cybersecurity incidents through proactive threat analysis
- Monitoring, detection, and analysis of potential cybersecurity intrusions through use Security Information and Event Management (SIEM) tools and Security Operations Centre (SOC).
- Response to confirmed cybersecurity incidents, by coordinating resources and directing use of timely and appropriate countermeasures.
- Providing situational awareness and reporting on cybersecurity status, incidents, and trends in adversary behavior.
- Implementation of a Data protection and privacy policy including a data management program focusing on strengthening our Data Management Framework across the Group.
- We also collaborate with a range of government, community, and industry bodies to strengthen system-level resilience and to reduce the possibility of cyber-attacks and the impact of fraud and scams on the community.

ii. Data Protection

Data is a critical component in the delivery of services and innovation development at KCB Group. Data protection laws have led to a dynamic shift in how corporations interact with personal data which involves an enhanced level of control by data subjects over their data and legal obligations to the handlers of personal data. KCB Group is dedicated to responsibly handling personal data and ensure the rights of data subjects are upheld across all its operations.

We have a Board approved data protection compliance framework which guides the implementation of data protection and privacy standards alignment across all our businesses. The KCB Group Data Protection & Privacy Policy and specific in-country data protection legislation provide a baseline that governs the management of personal data by the Group. KCB Group's Privacy Statement outlines how the Group protects the personal data it processes, why and how we collect and use personal data and how data subject rights can be exercised in relation to the processing of personal data.

The office of the Data Protection Officer was established to lead KCB's data protection compliance efforts. The KCB Data Protection Officer (DPO) is responsible for ensuring that KCB processes the personal data of its staff, customers, service providers, or any other stakeholders in compliance with the applicable data protection regulations. The DPO's Office also oversees the compliance with the KCB Group Data Protection & Privacy Policy which is a key guide in ensuring compliance standards throughout the Group.

We continue to undertake dedicated efforts to ensure the embedding of data protection principles in operations. These include integrity and confidentiality; lawfulness, fairness, and transparency; purpose limitation data minimization; accountability; storage limitation and alignment with cross border data transfer regulatory obligations. We also endeavor to ensure that the rights of data subjects are upheld and therefore continuously enhance our risk frameworks to ensure compliance. KCB appreciates that data protection is a key reputational risk driver and that this can be mitigated by ensuring responsibility in providing for data subject rights management and compliance.

Data protection capacity building and awareness was a key focus area cascaded across the various functions within the Group in 2022. The Group will maintain a continued awareness cascade to all stakeholders with focus being on employees and third parties within the Group ecosystem, increased technical compliance across all operations and compliance monitoring.

Further, registration of KCB Group and its subsidiaries which is a prerequisite for regulatory compliance in Kenya was also achieved. Periodic regulatory filings, as may be required by specific regulators, were undertaken. Data protection and privacy compliance monitoring for operations and products is an initiative that will continue in all future operations. In addition, existing policies were aligned to ensure data protection compliance including the continued integration of data protection and privacy requirements in standard operating procedures.

iii. Regulatory compliance risk environment

There has been a continued supervisory and regulatory focus on AML/CFT, consumer protection and resilience of banks to economic shocks. Banks have had to make significant efforts to respond to these increasing demands so as to mitigate against regulatory actions for noncompliance. In this regard, the Group continues to uphold current and new regulatory requirements in its undertakings and has no appetite to breach laws and regulations.

Key actions we are taking:

- We closely monitor regulatory developments to ensure new regulatory requirements, laws or regulations are implemented in a timely manner.
- We scan our local, regional, and global environment to keep abreast of emerging regulatory agenda to ensure adequate preparedness for appropriate response.
- We continue to invest significant resources to improve our compliance systems and controls and enhance capabilities to continually comply with new requirements.
- We continue to embed a strong compliance culture and desired behaviors through training and awareness to both internal and external stakeholders as appropriate.
- Regular compliance programs with remedial actions where any gaps are noted.
- We continue to ensure that regulatory ratios and limits are adhered to

iv. Macroeconomic environment

KCB's business performance is closely linked to the performance of the regional economies, which in turn are impacted by events in the regional and global economy. Intensified US-China friction and the Russia-Ukraine war resulted in the materialization of geopolitical risks. In addition, soaring energy and food prices have brought about an accelerated rise in global inflation resulting in a faster pace of monetary tightening.

Societal expectations regarding sustainability initiatives have been growing, and national governments are moving forward with climate change countermeasures. It is increasingly important for us to provide our clients with financial and non-financial support for their climate change countermeasures.

Key actions we are taking:

- We undertake regular stress tests to understand how our business performs and to prepare alternative action plans for a range of economic scenarios.
- We maintain a dynamic risk appetite setting approach which considers current and outlook.
- On an ongoing basis, management develops mitigating actions and assesses their effectiveness to guide decision making.

v. Climate Risk

Environmental and climate-related risks to the Bank are exposures to potential damage which may be caused as a result of events or processes related to the environment, including climate change. Environmental risks arise from the Bank's exposure to activities which may potentially cause environmental damage or be affected therefrom, such as: greenhouse gas emissions, waste creation, air or water pollution, soil contamination, compromised biodiversity, deforestation and extreme weather events. Environmental and climate-related risks are usually divided into two:

- Physical risks - arise from exposure to potential harm due to the scope and frequency of climate change, such as drought and floods. The materialization of this risk has a direct effect, inter alia, on the Bank's own activity and its business continuity capabilities, as well as on the activity of its customers and their investments.
- Transition risks - arise from the potential effect of changes and adjustments made in addressing climate-related risks and the efforts to mitigate them: such as policy changes, transitioning to low-carbon economy, adoption of environmentally friendly technologies, technological changes, changes in market preferences, in the business environment, etc.

The Bank is exposed to these risks both directly and indirectly:

Direct damage may be incurred by the Bank in case, for example, of harm, due to environmental factors, to its physical infrastructure, that is critical to its business continuity.

Indirect damage may be caused due to harm to the Bank's customers, the value of its collateral or the value of its investment portfolio. Thus, for example, indirect damage may be caused to the Bank if it extended financing to a company and that company had endured damage due to environmental causes or caused environmental damage. The damage incurred by that company could compromise its repayment capacity, thus indirectly affecting the Bank's asset value.

In recent years, there is greater global awareness of potential exposure as a result of the materialization of environmental risks and climate-related risks. As a result, legislation in this respect has greatly expanded worldwide, and companies now take into account environmental criteria when making ongoing business decisions. In the coming year, the Bank will focus on improving methodologies, measurement methods as well as quantitative and qualitative information to manage environmental and climate-related risks. In this context, special emphasis will be made on the business credit domain, due to its significant business and environmental materiality.

In 2022, the Group established a road map of how to further embed Climate related Risk Management guidelines in line with the guidelines on climate related risk management issued by the Central Bank of Kenya. We also updated our Enterprise Risk management framework to ensure the identification, assessment, management and reporting of climate change-related risks which help increase our understanding of the risks and opportunities in our portfolios and enhance our forward-looking analysis. The Group Board Audit and Risk Committee charter was also reviewed to ensure oversight is provided over climate risk management.

Management of Principal Risks

A. Capital Risk.

Internal Capital Adequacy Assessment Process (ICAAP)

KCB prepares the ICAAP report annually, and this informs the Board's ongoing assessment of the Group's processes for managing the sources and uses of capital as well as compliance with supervisory expectations for capital planning and capital adequacy.

The ICAAP process is aimed at ensuring an adequate level of capital in order to support all risks inherent in the Bank's activity, in accordance with the risk appetite policy established by the Board of Directors, and in accordance with future plans for development and growth, while developing and applying appropriate risk management processes.

The Group's ICAAP provides for identification, quantification and reporting of all the material risks. It establishes internal capital adequacy goals and a process for internal control, review, and audits. A detailed framework for stress testing risks, such as Credit related risks, Credit Concentration Risk, Forex Risk, Liquidity Risk, Interest Rate Risk in the Banking Book, Operational Risk etc., has been developed by the Group. The results indicate that the Group's position remains moderate under scenarios of low and medium stress conditions. The Group submitted its ICAAP document for 2021 to the Central Bank of Kenya in April 2022. In this document, the Bank evaluated risks and the potential effect of its asset mix on its risk profile, and set internal capital objectives based on these evaluations, taking into consideration the supervisory requirements and the prevailing operating environment. All banking subsidiaries continue to carry out the ICAAP review annually.

Planning and management of capital by the Group

We pursue an active approach to capital management through ongoing review, and Board approval of the level and composition of our capital base against key policy objectives.

Capital management is performed routinely, as an integral part of the Group's strategic and financial plan. Capital planning at the Group is based on the workplan of the Group and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Various sensitivity tests are applied within the planning of capital and capital ratios. The Group also routinely monitors actual results as compared to planning, and the gaps between result and planning, and, as necessary, examines the actions needed in order to maintain the established capital targets.

The objectives of the Group's capital management are to:

- Maintain sufficient capital in order to continue to undertake its activities including in stressed environments.
- Retain flexibility to take advantage of future investment opportunities.
- Ensure the firm operates above minimum regulatory capital ratios.

B. Credit risk

Credit risk is the risk associated with the default or change in credit profile of a client, counterparty, or customer. The credit portfolio is a major component of the asset portfolio of the Bank Group; therefore, deterioration in the stability of the various borrowers may have a significant adverse effect on the Group's asset value and profitability.

Activities that create credit risk include:

- **Balance sheet exposures –** Present liabilities to the Bank, such as credit and mortgages to the public, credit to banks and deposits with banks, credit to governments, investment in bonds (corporate and other), and the balance sheet part (market value) of derivatives and financial instruments.
- **Off-balance sheet exposures –** Potential (unrealized) liabilities to the Bank, such as guarantees, unutilized commitments to grant credit and unutilized credit facilities.

Credit Concentration risk may also arise from non-optimal diversification of specific risks in the credit portfolio, such that the credit portfolio is insufficiently diversified across the various risk factors; for example, when the credit portfolio is composed of a small number of borrowers (name concentration) or has a high degree of exposure to a particular economic sector (sector concentration).

Management of credit risks

The Group manages credit risk in accordance with its Credit Policy, Credit Risk Appetite and related governing guidelines. The goal of credit risk management is to ensure the Group operates within the risk appetite defined in accordance with the policies and strategic objectives in the area of credit, from a single transaction to credit portfolio level.

The Bank's credit risk management framework and policy is based on diversification of the credit portfolio and controlled management of risks. Risk diversification is reflected by the distribution of the Bank's credit portfolio across different sectors of the economy, a large number of borrowers, different linkage segments, and different geographical regions.

The policy and practice of distributing risks among economic sectors is based on an evaluation of anticipated developments in the different sectors. For this purpose, the Group conducts industry-level economic feasibility studies to evaluate the risk and business potential related to activity in the various economic sectors. The Group's business objectives are determined in accordance with these studies.

Credit review processes identify, monitor, mitigate and report to the responsible manager/function on negative signs related to borrowers.

Credit risk management is based on the following principles:

- **Independence –** This ensures proper corporate governance, prevent conflicts of interest, and create a system of checks and balances. This ensures that the information regarding risks reported to management functions, and in particular to senior management and the Board of Directors, is objective and is not influenced by other considerations, in particular considerations of business success and remuneration for such success.

- **Hierarchy of authority –** The Group has a hierarchy of authority that outlines a sequence of credit authorizations according to the level of debt of the borrower or group, the risk rating and problematic debt classifications allowing control over the process of approving new credit transactions. The hierarchy of authority provides a definition of individual credit approval thresholds and thresholds for escalation to approval committee.

- **Credit policies and procedures –** The Board of Directors of the Group approves the credit policies, which are examined and updated regularly, according to changes in the financial markets and in the economy. The policies and procedures include various limits on the credit portfolio in accordance with the risk appetite of the Group, including exposure limits by economic sector, country, financial institution or as a function of the risk level assessed by the Group. Limits are also imposed on the maximum exposure to a single borrower or a group of borrowers according to the credit rating assigned to the borrower, which reflects the borrower's risk level.

- **Controls and risk identification –** The process of reviewing and identifying credit risks is conducted by the three lines of defense. In the first and second lines of defense, controls are applied from an individual credit item to the portfolio level according to materiality thresholds. The Credit and Risk Divisions coordinate reports to the senior management and Board of Directors regarding trends and changes in the credit portfolio, including the level of credit risk in the portfolio, compliance with limits, special events, analysis of concentration, stress scenarios, and presentation of general risk indicators.

The identification of credit risk in existing products is based on risk management, measurement, and control processes at the various lines of defense, on the other hand, the identification of risk in new credit products is guided by the new products and initiatives risk assessment policy which specifies the processes to be followed for each new product at the Bank to identify all risks inherent in the product, assess the extent and materiality of such risk, and provide solutions for the measurement, control, and hedging of the risk.

Problematic debts and borrowers in distress

The policy for debt classifications and allowances includes indicators for the identification of customers who, according to the Bank's assessment, may default on their obligations to the Bank. The Credit, Retail and Corporate Banking Departments determine whether the specific customers should be included in the Bank's watch list, whether the customer's rating requires re-classification, and whether an allowance for credit losses is necessary. Customers identified for close monitoring and existing watch list customers are discussed monthly in the Management Credit Risk Committee. These borrowers are supervised and monitored more closely, and the Bank works to reduce its exposure to them by redeeming credit from the borrowers' resources. In certain cases, customers are transferred to a division specializing in monitoring and restructuring of customers' debt, or to the debt collection unit.

C. Market Risk

Market Risk is the risk of loss arising from potential adverse changes in the value of the Bank's assets and liabilities due to fluctuations in market risk factors such as interest (IRR) and foreign exchange rates (FX risk). The Group's policy is to optimize reward whilst managing its market risk exposures within the risk appetite defined by the Board.

Liquidity Risk is the risk that the Bank is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.

Market Risk exposures arising from the trading book are managed by the Treasury Department whilst those arising from the non-trading activities are managed through Asset and Liability Management (ALM) and ICAAP processes. Oversight of market and liquidity risk is provided by the Asset Liability Committee (ALCO).

Market and Liquidity Risk measurement, limit setting, reporting and oversight is conducted by the Market Risk department under the Group Chief Risk Officer.

The Market Risk Framework defines the policies that govern KCB's strategy and objectives for Market, Liquidity and Country Risk management and the approach and processes by which KCB achieves those objectives. It establishes Risk Management Processes that result in the identification, assessment, measurement, monitoring and control / mitigation of market, liquidity, and country risks in a consistent manner across KCB Group. It also outlines the risk governance structure and relevant roles and responsibilities, with the ALCO providing key oversight at the management level.

KCB expresses its acceptable level of market, liquidity and country risk through risk appetite statements and setting of the respective risk limits. The Group monitors risk through various limits including, but not limited to exposure, risk (PV01) and stop loss limits. The Group has a limit approval matrix that allows the Business units to take risk in a controlled manner. The respective limits are monitored on a daily /weekly / monthly / quarterly basis, keeping a record for all breaches as well as the breach authorization. Any limit breaches are required to be reported in a timely manner to limit approvers to determine the suitable course of action required to return the applicable positions to compliance.

Liquidity risk is monitored through the Liquidity and Loan to Deposit Ratio limits as well as the review of the funding analysis looking at interbank borrowing and deposit concentration. A Contingency Funding Plan is also in place.

The Group also undertakes market risk stress testing to:

- Assess the adequacy of the Group's financial resources for periods of severe stress and develop market-risk-related contingency plans.
- Promote risk identification and add further insight into the need for adjusting existing or adding new limits.
- Supplemental quality assurance for market risk management practices.

D. Operational risk

This is the risk of an adverse outcome resulting from inadequate or failed internal processes, people, and systems or from external events or legal risk but excluding strategic and reputation risk. The Group manages Operational Risk via a comprehensive operational risk management framework, and is supported by an established network of systems, policies, standards, and procedures. As part of this framework, KCB has defined its operational risk appetite and has established a Risk and control assessment process to help units to self-assess on significant operational risks and controls, identify, and address any gaps in the design and/ or operating effectiveness of internal controls that mitigate significant operational risks. Reports on compliance with risk appetite limits are submitted on a quarterly basis, within the consolidated risk document.

The Group utilizes a structured risk and control self-assessment process to evaluate the effectiveness of the control environment, in terms of both control design and performance, and to determine whether remediation efforts are required. Significant risk issues identified through monitoring and testing are escalated as may be needed to appropriate committees and control owners to be remediated.

The goals of operational risk management are:

- To ensure effective oversight and management of operational risks in all units of the Group, new products and initiatives including risk ownership and decision making.
- To ensure effective identification and communication of operational risks in all substantial business operations

with the aim of establishing operational risk appetite congruent with the approved strategic objectives of each unit in the Group.

- To establish an internal control structure promoting appropriate values of a culture of awareness, transparency, and efficiency with respect to operational risks within the Group.
- To optimally manage and allocate regulatory capital for operational risks.

Operational risk events are collated and reported to manage, mitigate, and monitor operational risk within the organization. The data captured provides meaningful information for root cause analysis and evaluation of internal controls. Timely, accurate and complete reporting of Operational risk event data is used to measure the risk impact in the Bank by aggregating losses and monitoring performance to indicate whether the Bank is operating within its risk appetite.

Responsibility for routine management of operational risk and for activities aimed at mitigating the risk lies with functional managers and the Managing Directors of subsidiaries in the Group. These activities are overseen by the Operational Risk Department within the Risk Division. Operational risk management activity is supervised and directed by three forums:

- The Board Risk Management Committee.
- The Management Committee – Group Operational Risk and Compliance Committee, chaired by the Group CEO.
- The Divisional/ Subsidiary Operational Risk Management and Compliance Committee.

Business Continuity

The Bank maintains and implements a continuity plan for emergency preparedness and business continuity. The Bank's preparedness is based on detailed action plans, working procedures, periodic tests, and drills, defined in a system of emergency procedures. As part of its emergency preparedness, the Bank regularly conducts a review of Business Continuity Management Framework, define reference scenarios, map, and analyze critical processes and the resources required for the recovery of such processes during an emergency through the Business Impact analysis, and updates its action plans based on the prevalent methodologies globally.

The Group continues to enhance its existing approach to business continuity to mitigate and manage the emerging risks that the Group may be exposed to. Its main objectives are:

- Safeguarding staff safety in emergency situations.
- Guaranteeing that critical functions are performed, and service is delivered to our customers.
- Fulfilling our obligations towards employees, customers, shareholders, and other stakeholders.
- Complying with regulations.
- Minimizing potential losses to the Group as well as the impact on business activities.
- Protecting our brand image, credibility, and trust.

E. Information Technology Risk

IT systems and infrastructures play a critical role in enabling the achievement of the Group's strategic objectives and operational activities. ICT risk arises from inadequate information technology/systems, inadequate ICT policy and strategy or inadequate use of the Group's information and communication technology.

KCB maintains an Information Risk Policy which governs the protection of KCB's information assets from all threats, whether internal or external, deliberate, or accidental, to ensure business continuity, minimize business damage and maximize return on investments and business opportunities. The objective of the policy is to protect the Group, its staff, customers and other third parties from information risks where the likelihood of occurrence and the consequences are significant. The policy also provides a consistent risk management framework in which information risks are identified, considered, and addressed. In addition, the Information Security policy governs the management and security of data and the information systems that handle these data. KCB understands that Information is an important business asset and to be suitably protected from a growing variety of threats and vulnerabilities to ensure business continuity, minimize business risk, and maximize return on investments and business opportunities.

The Group's information assets are protected against current and emerging sources of threats including but not limited to:

- Cybercrime,
- Computer-assisted fraud,
- Espionage, sabotage, and vandalism,
- Natural disaster, fire etc.
- Malicious software, computer hacking, and denial of service attack.

F. Fraud Risk

Fraud includes all those activities involving dishonesty and deception that can drain value from the business, directly or indirectly, whether or not there is personal benefit.

The Group Fraud Risk Policy/framework covers both internal and external frauds, and aims to reinforce the KCB values of honesty, integrity, and ethics and in this regard has a "Zero Tolerance" approach to fraud and corruption. KCB is committed to ensuring that a fraud free environment exists, and high ethical standards are upheld in the organization.

The key objectives of Fraud Risk framework are:

- Development of a suitable environment for fraud management.
- Maximum deterrence of fraud.
- Professional investigation of detected fraud.
- Effective sanctions, including legal action against people committing fraud.
- Effective methods for seeking redress in respect of money defrauded.
- Raising awareness of fraud and its prevention within the Group and to give guidance on reporting of suspected fraud and how the investigations will be conducted.

KCB is committed to and continues to build capabilities for effective response to fraud risks including enhancements to our systems and controls for proactive fraud detection and mitigation. The Fraud Management System in place has enhanced fraud management through automated detection of fraud across banking channels by enabling identification of unusual behavior and increase operational efficiency by augmenting fraud investigation efforts. The bank also undertakes a series of initiatives such as fraud risk training and awareness, underpinned by zero tolerance to fraud culture agenda.

All Stakeholders of the Group have a responsibility regarding the fight against fraud and other illegal acts. At KCB, it is everybody's responsibility to prevent and report fraud, misappropriations, and other inappropriate conduct within their knowledge and ability. In order to detect potentially inappropriate activities, the Group has in place a whistleblowing platform available to both internal and external stakeholders for reporting such issues.

KCB Group has built in mandatory checks into its processes/ operations as fraud prevention measures. There is a management level Disciplinary Committee which reviews fraud cases and applies the consequence management framework.

G. Compliance Risk

The Group holds that Compliance is not just the responsibility of specialist compliance staff, but it is a part of the culture of the Group and an integral element of the bank's entire scope of activities. It is therefore the responsibility of every business and support function and of each and every member of staff to conduct business in compliance with all applicable requirements.

i. Management of the systems and processes to ensure adherence to the law, banking charter and policies.

The Group is committed to transparent management that emphasizes accountability, disclosure, and compliance with all relevant laws, regulations, and standards of practice. KCB recognizes and affirms that Compliance starts at the top, and that it concerns everyone within the Bank. We hold that Compliance is an integral part of the bank's entire scope of activities, and it is therefore the responsibility of each and every member of staff to conduct their business in compliance with all applicable requirements.

In line with its commitment to Compliance, the Group takes proactive steps to ensure compliance with the ever-changing regulatory environment and applicable standards and supports its business growth by adequately monitoring and addressing compliance risks.

The Compliance Function identifies, assesses, advises on, monitors and reports on the Bank's compliance risk, that is, the risk of legal or regulatory sanctions, financial loss, or loss of reputation that the Group may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice applicable in all the jurisdictions it operates in, as well as failure to conform to internal compliance policies and standards of operation, and with the highest ethical standards.

KCB Group minimizes compliance uncertainty by ensuring that the activities of the Group and its staff are conducted in accordance with all laws, regulations, codes of conduct and standards of good practice applicable in all the jurisdictions it operates in, as well as conforming to internal policies and standards of operation, and with the highest ethical standard. This is achieved through a compliance and ethics framework that supports a robust compliance culture which is based on the highest standards of ethical business practice.

The Compliance Function reports to the Group Chief Risk Officer. In KCB Bank Kenya, the function headed by the Head of Compliance & Ethics reports to the Group Chief Risk Officer, who maintains oversight on Compliance across all subsidiaries. The Compliance Office provides Group Shared Services support on policies and fit-for-purpose functional maintenance of the systems used. Heads of Risk and Compliance in KCB banking subsidiaries oversight Compliance and Ethics in each subsidiary.

Across Branches, Managers Service Quality and Compliance provide the necessary Compliance assurance, while individual Business units deploy Compliance Managers discharging compliance obligations. KCB holds up business areas as the first line of defense on compliance matters, with the central Compliance actively promoting awareness, guidance, and monitoring for Compliance assurance.

H. AML/CFT Compliance

The Group remains committed to strictly upholding and complying with international rules and standards on Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT). The Group, through its AML, KYC and Sanctions policies has implemented a robust AML and CFT compliance program aligned to international best-practice. The program is deployed across all branches and subsidiaries. Each subsidiary maintains an independent Money Laundering Reporting Officer (MLRO). A common standards approach is upheld in the deployment of the AML/CFT system which is supported by the Compliance Group Shared Service Centre in alignment with requirements in all jurisdictions.

The Group's AML/CFT program is benchmarked to international best practice, while maintaining compliance with the Regulatory requirements in countries of operation.

I. Reputational Risk

The Group values its good reputation and protects its Brand through monitoring Reputational risks and their drivers, as well as through continuous media monitoring. All staff and other parties working for or on behalf of the Group are called upon to uphold ethical business conduct in all their business dealings.

In addition, annual ethics training is provided to all staff, and employees are encouraged to freely raise any ethical concerns through established channels, either internally, or anonymously through external channels.

J. Regulatory Compliance

Whilst the Group has a zero-risk appetite for material regulatory breaches or material legal incidents, the Group remains exposed to them, driven by new legislation and regulations that continue to be rolled out which in each case needs to be interpreted, implemented, and embedded into day-to-day operational and business practices across the Group.

The Group continues to keep abreast with the constantly changing regulatory environment. Local and international Regulations and guidelines with significant impact are monitored, and guidance issued to business on interpretation and adoption to ensure that the Group remains in compliance with the requirements. The Group shall continually adapt to the rapidly changing regulatory environment and ensure compliance while reducing exposure to regulatory risk.

K. Legal Risk

This represents potential exposures from litigation, government investigations and other regulatory enforcement risks as a result of a number of factors and from various sources. Our business is highly regulated, and existing, new or changed laws, rules and regulations may adversely affect our business and ability to execute our strategic plans. Any finding or claim of substantial legal liability against the bank could have a material adverse effect on our business and financial condition and could also result in significant reputational risk.

The Group has put in place frameworks to ensure that any activities or incidents that may result in legal risk are identified, assessed, monitored, and addressed effectively and in a timely manner. Further, the compliance framework ensures that effective oversight and controls are in place to ensure compliance with regulatory obligations including consideration of these at the Group and individual subsidiary legal entity level.

The Legal services division headed by the Group General Counsel provides oversight and support to the business in identifying and managing legal issues facing the Group. This includes managing actual and potential litigation and enforcement matters, contract negotiation and documentation, providing legal advice on product offerings and interpreting existing or new laws and regulations.

L. Strategic Risk

Strategic risk is material present or future risk to profits, capital, reputation, or status that may be caused by changes in the business environment; faulty business decisions; improper implementation of strategy or business decisions; or failure to respond to changes in the industry (e.g., competitors' actions), the economy, or technology. Strategic risk is a function of the congruence of the organization's strategic objectives with its environment, adaptation of the business plans that it develops to achieve these objectives, resource allocation, and quality of implementation.

The strategic plan of the Group is a three-year plan approved by the Board of Directors, and examined and adjusted annually to the prevailing changes in the business environment in the region and globally, changes in the Bank's competitive environment, and changes in the Bank's objectives.

The process of formulating the strategic plan encompasses an examination of the bank's business, the relevant strategic risks, and a comprehensive planning process. The annual strategic planning process consists of three main stages, each of which addresses a different aspect of strategic risk management and assessment:

Stage 1 – Identification of the strategic risks to the Bank in its competitive environment – examination of the factors influencing the Bank's competitive ability and future growth potential, including an examination of global and local trends and the current situation at the Bank.

Stage 2 – Formulation of objectives and high-level work plan, adapted to the business environment and to the strategic trajectory.

Stage 3 – Construction of detailed plans for all Areas, examination of scenarios, and establishment of risk indicators. This stage involves determination of themes, strategic focus areas of the Bank, and strategic maps for the realization of each theme. In addition, strategic maps are created for the Areas, in congruence with the themes, and strategic risk indicators are established. Goals and metrics are established for each map (at the process level and at the level of business results), derived from the strategy. This allows strategy to be translated into measurable steps for the various units, making it possible to identify the extent of the Bank's exposure to strategic risk.

M. Conduct Risk

Conduct Risk is the risk of delivering unfair customer outcomes or market integrity resulting from deliberately or unintentionally acting unfairly, inappropriately, or unethically. The Group is exposed to both intentional and unintentional misconduct risks.

The Group endeavors to minimize conduct risk through maintaining effective Risk Management Frameworks incorporating a set of Good Conduct Principles and by promoting an appropriate organizational culture. This is complemented by the various Group policies, processes and practices aligned to the Risk Management Framework.

The Group's ongoing commitment to good customer outcomes sets the tone from the top and supports the development of the right customer-centric culture, strengthening links between actions to support conduct, culture and customer and enabling more effective control management. Key actions undertaken include:

- Maintaining an ethical culture by strengthening our control environment to promote good business practices and reinforce appropriate behaviors aligned with the group's values.
- Policies and procedures in place to ensure appropriate controls and processes that deliver fair customer outcomes, and support market integrity and competition requirements.

- Customer needs considered through customer plans, with integral risk assessments for all new products and initiatives prior to rollout.
- Enhanced product governance framework to ensure products continue to offer customers fair value, and consistently meet their needs throughout their product life cycle.
- Effective complaints management and escalation mechanisms when required.
- Ongoing engagement with third parties involved in serving the Group's customers to ensure consistent delivery.

N. Model Risk

Model risk is the risk of a loss or harm to the Bank's reputation due to erroneous, model-based decision-making, as a result of using an erroneous model, reliance on non-representative data, errors in implementing the model or faulty use of the model. The models risk management policy was reviewed by the Bank's management and Board of Directors in 2022 with the approach that the nature and quality of models are vital to ongoing business activity. The policy covers principles of model risk management, definition of corporate governance, officers and reporting hierarchies. The Bank continues to monitor changes and adjustments made to models and their usage, in accordance with the development of the crisis and the need to revise them, including by way of back testing. The Bank's strategy for transitioning to using digital tools and models-based processes increase the reliance on models in work processes. This trend increases the efficiency, transparency and objectivity of the processes, thereby mitigating conduct, service, credit underwriting risks but increasing models risks.

Risk Profile - Defining Risk Factors' Severity

Risk profile for the Group and its entities is assessed on a probability and impact matrix and graduated into Low, Medium, and High levels against the set risk tolerance and appetite levels. Our risk assessment process involves a detailed consideration of uncertainties, likelihood, consequences, possible events, scenarios, control design and their effectiveness. The output is presented in a five-point scale for both impact and likelihood of events occurring. The methodology for classifying the severity of the exposures to various risks, as depicted in the risk factors' severity table below, is based on quantifying the effect of various scenarios being realized on the Group's capital, earnings, or reputation.

Probability of event occurring						
Expected - Above 60%	5	Medium	Medium	High	High	High
Highly Likely - 41% to 60%	4	Medium	Medium	Medium	High	High
Likely - 21% to 40%	3	Low	Medium	Medium	Medium	High
Not likely - 11% to 20%	2	Low	Low	Medium	Medium	High
Remote - 0 to 10%	1	Low	Low	Low	Medium	High
		1	2	3	4	5
		Impact of event occurring				
		Minor	Low	Moderate	High	Critical

In determining the overall risk score, the ratings for impact and probability are aggregated and used to determine the appropriate level of risk response required. The risk severity ratings are also used to distinguish significant risks from those that are less so, and therefore assists with efficient response and resource allocation. The responses considered include doing nothing further, considering how to treat the risk, undertaking more analysis of the risk to better understand it, maintaining current controls, or reconsidering what objectives are being pursued. The risk profile is reviewed on an ongoing basis, and along with the risk appetite, determine the strategic direction for the Group and provide boundaries for strategic, business, and operational decision making.

Looking ahead

It is anticipated that 2023 will continue to be dominated by supervisory and policy actions with emphasis being placed on data protection, cybersecurity, ESG, conduct risk, digital transformation, operational resilience, and financial crime. The Group will continue to review its business environment and ensure it can adapt and upgrade its systems timely to ensure compliance with any new regulatory actions.

The Group will also continue to proactively assess the internal and external environment to identify emerging issues and implement appropriate controls to adapt, adequately mitigate potential exposures and ensure compliance with any new regulatory actions. The Group will also continue to enhance its risk management frameworks as and when required to ensure resilience as well as remain relevant and effective in the dynamic environment that we operate in. Emphasis on risk and controls self-assessment, management of existing and emerging risks remains critical for the Group.

Internal Controls

The Board has delegated to the Group Audit and Risk Committee (GARC) its responsibility for reviewing the effectiveness of the Group's internal controls.

The Group Board has the overall responsibility for the Group's system of internal control, which includes all material controls including financial, operational and compliance controls and related risk management, and reviewing its effectiveness. The system of internal control is designed to identify, evaluate, and manage significant risks associated with the achievement of the Group's objectives. It is designed to manage risk rather than eliminate risk altogether.

The GARC, regional business Board Audit Committee members and relevant Senior Management undergo audit, financial reporting, and governance related training annually to ensure that they are up to date with current trends and best practices.

The day-to-day responsibility for managing risk and the maintenance of the Group's system of internal control is collectively assumed by the Executive Committee. The Executive Committee is supported in this task by the Internal Audit function. The 12 months rolling audit plan approved by the GARC ensures that internal controls over the high-risk operations are reviewed annually.

The approach adopted for the development of the 2022 audit plan for the Bank was based on residual risk assessment derived from inherent risk assessments and the evaluation of the control environment for each particular auditable business unit. The audit plan approach has also considered the local regulatory expectations and feedback from the Board Audit Committee and Executive Management in accordance with the International Professional Practices Framework (IPPF) promulgated by The Institute of Internal Auditors (IIA).

Group Internal Audit is a centralized independent assurance function though in line with country specific regulations, each of the regional subsidiaries have put in their own internal audit functions reporting to their respective Board Audit Committees. The Group Internal Audit function provides general oversight of regional audit functions.

In addition, the Group Internal Audit Function provides support to the regional businesses through the review of specific high-risk areas such as credit, technology, treasury, risk management and financial reporting.

The Executive Committee tracks the remediation of outstanding audit issues monthly across the Group and ensures the auditor's recommendations have been satisfactorily implemented to address the identified risks. The Group Internal Auditor presents key audit findings to the Group Executive Committee monthly, who ensure the issues are fully resolved. Further, on a quarterly basis, the GARC monitors the progress of resolution of identified audit issues and provides guidance.

Regulatory Changes in 2022 Impacting KCB Group Subsidiaries

1. Burundi

Date of change (Month)	Legislation	Change	Impact on KCB
June 2022	**Law No. 1/24 of 30 June 2022 related to the general budget of the Republic of Burundi**	The law has cancelled the tax exemptions previously existing on government securities. Effective on 1 July 2022, revenues on government securities are taxable.	Increase of tax payable by the bank.
December 2022	**BRB Circular No. 01/ RC/22 on the margin to be applied by banks in their foreign exchange transactions with customers**	The foreign exchange margins applicable to foreign exchange sales and purchases must be contained within the limits of plus or minus 2% around the official reference price published by the Central Bank of Burundi (BRB), without expending more or less 5% all fees and commissions related to these operations included. However, BRB circular No. 02/RC/20 limited the margin applicable by the banks to 2.5% in relation to the cost of foreign currency from BRB and 10% in relation to the cost of foreign currency from other sources, all fees and commissions related to these operations included.	Decrease in supply and decrease in margin.
December 2022	**BRB, Addendum to the Exchange Regulation of 19 September 2019**	Obligation for importers to complete an import declaration for imports with a value greater than USD 3,000 for chemicals, food and pharmaceutical products and with a USD value greater than USD 5,000 for other products including donations.	No impact on the bank. However, the customers are affected by new formalities and related costs.

2. Kenya

Date of change (Month)	Legislation	Change	Impact on KCB
January 2022	**POCAML (Amendment) Act 2021**	The Financial Reporting Centre permitted to intervene and stop a suspicious transaction up to 5 working days in transactions in financial institutions.	Increased monitoring by FRC.
January 2022	**NHIF (Amendment) Act, 2022**	Employers to be liable as a contributor to the fund in respect of its employees	The Act compels employers to match the NHIF contributions of their employees and not deduct cash from their salaries. NB: the Employment and Labour Relations Court in November 2022 gave a temporary reprieve to employers after it blocked enforcement of this section.
March 2022	**Tax Appeals Tribunal (Amendment) Act, 2022**	Right of appeal from the decisions of the High Court to the Court of Appeal and the Supreme Court. appointment of the Tax Appeals Tribunal by the Judicial Service Commission as opposed to the Cabinet Secretary, National Treasury and Planning. Appointment of full-time service members of the Tribunal	The Bank's tax disputes will now be expeditiously disposed of at the Tribunal

April 2022	**Copyright (Amendment) Act, 2022**	• Introduction of revenue sharing formula from the sale of ring back tunes as follows:
		  • Premium rate service provider at 8.5%
		  • Telecommunication operator at 39.5%
		  • Artiste or owner of the copyright should get no less than 52%.
		• Establishment of the National Rights Registry which shall be responsible for:
		  • digital registration of copyrights works.
		  • authentication and authorization of consumers of copyrights works.
		  • tracking, monitoring and dissemination of data or logs related to access of registered copyright works.
			Implement guidelines on the sharing formula where the services of an artist are enlisted for purposes of promotion and marketing of its products and services.
			
			Ensure that artists engaged for purposes of promotion and marketing of products and services have a certificate from the National Rights Registry.

April 2022	**Employment (Amendment) Act, 2022**	• Employees to avail their clearance certificates upon receipt of an offer for employment. • Issuance of clearance certificates free of charge.	Implement guidelines on the requirement for clearance certificates.
April 2022	**Kenya Deposit Insurance Corporation (Amendment) Act 2022**	• The maximum amount a depositor with an institution under liquidation is to be paid by the KDIC increased from Kes. 100,000 to Kes. 500,000 • Payment to be made to a depositor within six months or any shorter period following the conclusion of liquidation of the institution insured	Increased cost to KDIC to cover depositor liquidation payments.
July 2022	**Finance Act, 2022: Income Tax Act**	Increase of the capital gains tax payable in Kenya from 5% to 15% effective 1 January 2023.	The bank to provide for the increased margin in its sale of any capital assets.

Date of change (Month)	Legislation	Change	Impact to KCB
		Highlights the formula of calculating the value of the benefit derived from an ESOP scheme run by an organization and further factors in the correct value of the benefit accrued to the employee relative to the market price at the time the employee exercises the option	The amendment changes the point at which the benefit accrues to the employee from the date "the option is granted by the employer" to the date "when the employee exercises the option."
		Provides for personal relief in the form of insurance relief on insurance premiums paid in respect of life insurance cover to be more gender neutral.	KCBIL to ensure that insurance relief on insurance premium takes gender-neutral approach.
	Finance Act, 2022: Excise Duty Act	First Schedule - Part II Paragraph 6: 20% excise duty on fees to be charged by digital lenders	The bank's digital lending products to factor in 20% in their products.
	Finance Act, 2022: Tax Procedures Act	Commissioner to secure unpaid taxes by directing property registrars to place disposal and transaction caveats or restrictions on assets/properties to recover unpaid tax by disposing the property if the taxpayer does not pay within two months of notification.	Securities held by the bank may be compromised if the taxpayers fail to settle their liabilities with KRA.
		KRA agency notice period amended from 7 days to 14 days and the tax commissioner must have initiated a tax dispute process with the taxpayer.	KRA agency notices to reflect 14 days instead of 7 days. The Tax Commissioner is restricted from attaching bank accounts for collection of funds until and unless the tax dispute process is duly observed.
	Finance Act, 2022: Capital Markets Act	Licensing requirements for operating as an investment advisor or fund manager introduced.	KCB Investment Bank Limited to ensure investment advisors and fund managers are licensed.
	Finance Act, 2022: Unclaimed Financial Assets Act	Introduction of waiver of penalties and fines payable for non-delivery of unclaimed financial assets.	Upon justifiable cause, the bank will be able to avoid extra penalties and fines.
July 2022	**National Government Constituencies Development Fund (Amendment) Act, 2022**	Number of accounts to be opened by each Constituency for CDF purposes increased from 1 to 2 and to be known as: • Constituency Operations Account. • Constituency Deposit Account.	Additional account provisions for operation purposes.

2. Kenya (Continued)

Date of change (Month)	Legislation	Change	Impact on KCB

July 2022	**Companies (Beneficial Ownership Information) Amendment Regulations, 2022**	• The criteria for identifying beneficial owners was extended to include not only individual ownership but also joint ownership
		• The amendments have expanded the scope of disclosure of beneficial ownership information by companies to permit disclosures to:
		  • A procuring entity (public entity), where the company in question participates in public procurement and assets disposal under the Public Procurement and Asset Disposal Act, 2015
		  • A contracting authority, where the company participates in a public private partnership arrangement under the Public Private Partnership Act, 2013.
		  • The public. The amendments have further given the Government authority to disclose beneficial ownership information of a company where such information affects the country
			The amendments have expanded the scope of disclosure of beneficial ownership information by companies and the bank policies to be revised accordingly.

November 2022	**Public Finance Management (Financial Inclusion Fund) Regulations, 2022**	Creation of a Hustler Fund for Kenyan workers in the lower economic segment with low and/or irregular incomes in the informal and MSME sector. The capital of the Fund shall be as appropriated by the National Assembly	KCB in its management of the Hustler Fund as contractually appropriated, to implement as per the regulations.
Stakeholder Directives			
November 2022	**CBK Suspension of listing of negative credit information of beneficiaries of mobile-based loans for the next six months.**	CBK Policy directive on delisting of digital mobile loan defaulters extended for 6 months to 31 May 2023. The terms, however, apply to loans that were listed as non-performing on or before 31 October 2022.	Implemented as per the directive
November 2022	**Kenya Gazette**	• Registry Index Maps will replace deed plans as registration instruments. • Old land registers for properties in the conversion lists, where the notice has expired, will be closed with effect from 26 July 2022. • public to apply for replacement of titles with old parcel numbers and issuance of new titles with new parcel numbers.	Customers to apply for a conversion of their titles where they have used the titles as security.

3. Tanzania

Date of change (Month)	Legislation	Change	Impact on KCB
June 2022	**The Anti-Money Laundering Act (The Anti-Money Laundering Regulations), 2022**	Anti-money laundering, counter terrorist financing and counter proliferation financing policies and procedures by reporting persons approved by the Board of Directors or its equivalent governing body of the reporting person and proportionate with regards to the size and nature of the business of the reporting persons. Regulations to provide guidelines on the implementation of the Anti-Money Laundering Act including: • Establishment of internal procedure. • Application of simplified due diligence measures. • Reliance on third parties' customer due diligence.	KCB Bank has in place AML policy and procedures that accommodate requirement as provided.

October 2022	**Guidelines On the Climate - Related Financial Risk Management Guidelines 2022 issued by Bank of Tanzania**	• A bank or financial institution shall establish robust governance arrangements to enable effective identification, management, monitoring and reporting of the climate-related financial risks that could materialize over different time horizons. • The Board of a bank or financial institution shall ensure an appropriate collective understanding of climate-related financial risks at both Board and senior management level; approve, review and set clearly roles and responsibilities of senior internal organisation and management of financial climate risk related.	Bank to prepare climate-related financial risk policy and framework that shall provide robust governance for climate related financial risk and have the same approved by the board. Compliance required to avoid penalties and sanctions.

4. Uganda

Date of change (Month)	Legislation	Change	Impact on KCB
February 2022	**The Landlord and Tenant Act, 2022**	Introduction of the Act setting out various elements including: • Requirement for all tenancy agreements of twenty-five currency points or more (Ugx 500,000) to be in writing. • Imposing responsibility for payment of taxes and rates on the landlord. • Imposing the responsibility of payment of all utilities on the tenant • Providing guidelines for the tenant on how to act with respect to the premises.	The bank has largely complied with the provisions of the Act which have now been codified.
February 2022	**The Trustees Incorporation (Amendment) Act, 2022**	Creates a requirement for trustees or a trustee with beneficial owners to keep a register of its beneficial owners.	Compliance to avoid penalties.
February 2022	**The Cooperative Societies (Amendment) Act, 2022**	Creates a requirement to register beneficial owners	Compliance to avoid penalties.
June 2022	**The Stamp Duty (Amendment) Act, 2022**	The stamp duty on security documents such as pledges, mortgages, security bonds has been scraped off to zero from 1% of the facility amount reducing the cost of borrowing.	Application of change in securitization.
June 2022	**The Value Added Tax (Amendment) Act, 2022**	The Act introduces value added tax on imported services used by businesses in making exempt supplies, provides for the repeal of the exemption on cotton seed cake, exempts assistive devices for persons with disabilities, provides for an exemption for supply of airport user services charge by the Civil Aviation Authority, provides for equal treatment of supplies of educational materials from the East African Community Partner States and to provide for related matters.	Key to note is that VAT is now charged on imported services used for making exempt supplies a drift from the earlier position where the services were exempt and considered as zero-rated supplies.
June 2022	**The Income Tax (Amendment) Act 2022**	• The definition of a "beneficial owner" has been substituted to mean in relation to the natural person who ultimately owns or controls a customer or the natural person on whose behalf a transaction is conducted and includes a person who exercises ultimate control over a legal person or arrangement. • In relation to a legal person, to include the natural person who either directly or indirectly holds at least ten percent of shares or voting rights of the legal person; the natural person who exercises control of the legal person through other means including personal or financial superiority; and the natural person who has power to make or influence decisions of a legal person. • The "exempt organizations" have been revised to mean a religious, charitable, educational institution or research institution whose object is not for profit.	Application of change customer UBO identification.

4. Uganda (Continued)

Date of change (Month)	Legislation	Change	Impact on KCB
September 2022	**Anti-Money Laundering Amendment Act 2022.**	• The Amendment introduced administrative sanctions for non-compliance with AML laws and Regulations. • The Amendment creates sanctions for failure to comply with the Directive of the FIA by any accountable person who without reasonable excuse, fails to comply in whole or in part with any obligations under the Act. The FIA may impose administrative sanction including reprimand, warning or a fine not exceeding thirty-seven thousand five hundred currency points.	Compliance requirement to avoid penalties.
September 2022	**The Companies (Amendment) Act, 2022**	• Articles and Memorandum of Association are to be required to be left with the Registrar of Companies after incorporation. • The Act creates sanctions for any person who misrepresents the shareholding of the company. The Act also mandates the company to have a register of Beneficial Owners at the registered company's registered office. • The Act also empowers the Registrar of Companies to enforce the provisions of the Anti-Money Laundering Act, 2013 as an accountable person. This may require an advanced verification of loan documents submitted to the Registrar	Compliance requirement to avoid penalties. Although this has been the practice, it has now been codified. This will in turn require that customers for credit facilities may be required to avail certified copies of their Memorandum and Articles of Association
September 2022	**The Anti-Terrorism (Amendment) Act, 2022**	The amendment introduces an offence termed as Proliferation financing which is committed where a person or organization makes available an asset, provides a financial service or conducts a financial transaction to facilitate activities mentioned in the Amendment	The Amendment imposes direct liability any officer, director or agent of a financial institution. Financial institutions must alert the Financial Institutions Authority of such transactions if conducted and not make available funds to persons or organizations whose purpose is Proliferation financing.
October 2022	**The Computer Misuse (Amendment) Act, 2022**	The amendment was passed to amend the Computer Misuse Act, of 2011 to enhance the provisions on unauthorized access to information or data, to prohibit unlawful sharing of any information relating to a child, to prohibit hate speech, the sending or sharing of malicious or unsolicited information; to regulate the use of social media and related matters.	• Creates an offence to access or intercept any program or another person's data or information, voice or video record another person or share any information that relates to another person without authorization.

Date of change (Month)	Legislation	Change	Impact on KCB
			• It is also an offence under the Act to share or transit information relating to a minor without the consent of the parent or guardian unless authorized by law or if it's in the best interest of the child. The Bank is therefore under an obligation to ensure compliance with the Act as amended. • The Bank should take caution on what is shared on its social media platforms as it is an offence to publish. Distribute or share information prohibited under the laws of Uganda.
November 2022	**The Financial Institutions (Revision of Minimum Capital Requirements) Instruments 2022.**	All financial institutions are required to have paid-up share capital of Ugx.120 billion of 31 December 2022 and a paid-up share capital of Ugx.150 billion by 30 June 2023.	Compliance requirement to avoid sanctions.

Stakeholder Directives

January 2023	**Bank of Uganda - Consolidated Corporate Governance Guidelines.**	• The Board should have at least four (4) Independent Non-Executive Directors. • Separation of Compliance Department as an Independent Unit reporting to Board Risk Committee. • The Board should have a succession policy in place.	Compliance requirement to avoid sanctions.
September 2022	**Bank of Uganda - Customer Due Diligence (CDD) Guidelines.**	Guidelines introduced minimum customer due diligence requirements regarding the ownership, the Bank should identify and verify the natural person (s) who owns at least five percent (5%) or more shareholding of the legal person or legal arrangement.	Compliance requirement to avoid sanctions.
September 2022	**Bank of Uganda - Suspicious Transaction Reporting (STR) Guidelines**	Enhance suspicious transaction reporting by Banks.	Compliance requirement to avoid sanctions.
October 2022	**Bank of Uganda - Review of Prudential Returns for Supervised Financial Institutions.**	To align data collection with risk-based supervision, monetary policy and to comply with the East African Community (EAC) monetary affairs committee harmonisation criteria as well as global standards in banking supervision.	Compliance requirement to avoid reputational damage and/or sanctions.

Board of Director's Profiles

Name: Andrew W. Kairu
(65 Years)
Designation: Group Chairman
Date of Appointment to Designation:
Appointed Group Chairman in October 2018
Date of Appointment to Board: June 2018

Education and Professional Background:

Andrew holds a Bachelor of Commerce degree from the University of Nairobi. He has also attended executive programs in executive development at the Wharton School, University of Pennsylvania and in Corporate Governance at Harvard Business School, Harvard University. His banking career spans over 30 years and includes stints at Commercial Bank of Africa, Standard Chartered Bank and Citibank N.A culminating in his posting to London to head Citibank's Emerging Markets Financial Institution Business. In 2004, he joined Ghana International Bank PLC London as the Chief Operating Officer and Executive Director, a position he held for over 10 years. Andrew has previously served as a member of the audit committee of the Commonwealth Secretariat, London and was also previously a Trustee of the Citizens Advice Bureau of Caterham and Warlingham, United Kingdom. Prior to his appointment as Group Chairman, he served as a non-executive director of KCB Bank Kenya from November 2016.

Current KCB Group Board Appointments:

Andrew is the chairman of the Nominations Committee of the board.

Name: Geoffrey Malombe
(51 Years)
Designation: Alternate Director to
C.S. – National Treasury
Date of Appointment to Board as Alternate:
December 2022

Education and Professional Background:

Geoffrey Malombe is currently the Ag. Director, National Assets & Liabilities Department. Prior to his current role, he was the Senior Deputy Accountant General. He holds a Master of Arts in International Studies from the University of Nairobi, a Master of Business Administration (Finance Option) from the University of Nairobi and a Bachelors of Science in Agricultural Economics from Egerton University. Geoffrey is a member of the Institute of Certified Public Accountants of Kenya (CPA-K) and the Registration of Accountants Board (RAB). He has previously served as a member of the Boards of the Leather Council of Kenya, the National Water & Soil Conservation Corporation, the Consolidated Bank of Kenya and ICPAK. He is currently a council member of the Kenya School of Law.

Current KCB Group Board Appointments:

Geoffrey is the chairman of the Strategy & IT Committee and a member of the Oversight committee. He is also a member of the board of KCB Bank Kenya Limited.

Name: Lawrence Njiru
(51 Years)
Designation: Director
Date of Appointment to Board:
August 2018

Education and Professional Background:

Lawrence holds a Bachelor of Commerce (Accounting) degree from Kenyatta University and is a member of the Institute of Certified Public Accountants of Kenya (CPA-K). He joined the KCB Group Board in May 2018 and Chaired the Audit Committee until July 2020.

He has over 10 years' experience in Board leadership and has served as a non-executive director of Kenya Seed Company where he chaired the Audit Committee and previously as Chairman of Simlaw Seeds Company Limited. In addition, he has over 20 Years senior management experience in business strategy, finance, commercial, audit and accounting. He worked at Standard Media Group Kenya Limited as Group Commercial Director and served as Group Financial Controller in the same Group. Prior to this, he worked as a senior auditor at KPMG East Africa.

Current KCB Group Board Appointments:

Lawrence is the chairman of the Audit & Risk and Oversight committees and is a member of the HR & Governance and the Nominations committees. Lawrence is the Chairman of KCB Bank Kenya Limited and also sits on the board of KCB Bank Burundi Limited.

Name: Ahmed Mahmoud
(47 Years)
Designation: Director
Date of Appointment to Board:
July 2020

Education and Professional Background:

Ahmed Mahmoud is an advocate of the High Court of Kenya and an experienced commercial lawyer specializing in financing agreements and Islamic finance, corporate law, and transactions agreements. He holds a Master Degree in Law (LLM) and Bachelors of Law Degree (LLB) from the University of Liverpool in the United Kingdom and a Post Graduate Diploma in Law from the College of Law, London, England.

Current KCB Group Board Appointments:

Ahmed is a member of the Audit & Risk, the Strategy & IT, the HR & Governance and the Nominations committees. He is a member of the board of KCB Bank South Sudan Limited and is the Chairman of KCB Foundation.

Name: Dr. Obuya Bagaka
(47 Years)
Designation: Director
Date of Appointment to Board:
October 2020

Education and Professional Background:

Dr. Obuya Bagaka has extensive experience and expertise in Public Administration, Policy and Strategy. He has over 12 years' experience in Public Finance and Budgeting, Governance, Capacity Building, Research and Policy Development in bothBpublic and private sectors. Currently, Bagaka provides advisory and consultancy services to public and private organization. Previously, Bagaka worked as the technical lead on governance and institutional strengthening for a DFID-funded program: The Sustainable Urban Economic Development (SUED). He holds a PhD in Public Administration (from Northern Illinois University, USA); M.A. Public Administration (Minnesota State University-USA); B.A. Political Science & Philosophy (University of Nairobi). He is also a Member of the Commonwealth Association of Public Administration and Management.

Current KCB Group Board Appointments:

Dr. Bagaka is a member of the Audit & Risk, Strategy & IT and Oversight committees and serves as a member on the boards of National Bank of Kenya Limited and BPR Bank Rwanda Plc.

Name: Alice Kirenge
(62 Years)
Designation: Director
Date of Appointment to Board
November 2021

Education and Professional Background:

Mrs. Alice Kirenge holds a Bachelors of Commerce degree in Management and MBA in Strategic Marketing. She is a fellow of the Life Management Institute (FLMI), and an Associate in Customer Service. She is an alumnus of Strathmore Business School (SBS) and Babson Business School, Boston Mass, USA. She is a member of the Institute of Directors (IoD). She has several years' experience in the insurance and financial services sector. She is a founder member of the Starehe Girls Centre and currently sits on the Board of Sokoni Women's Development Initiative. She has previously served on the boards of Women's Enterprise International (WEI) and of the Lamu Port South Sudan Ethiopia (LAPSSET) Corridor Development Authority where she served as the chair of the Finance and Administration Committee.

Current KCB Group Board Appointments:

Alice is the Chairman of the HR & Governance committee. She is a member of Audit & Risk and Nominations committees. She is the Chairman of KCB Bancassurance Intermediary Limited and is a member of the board of KCB Foundation.

Name: Anuja Pandit
(52 Years)
Designation: Director
Date of Appointment to Board:
August 2022

Education and Professional Background:

Ms. Anuja Pandit holds a Masters in Strategic Management from the United States International University (USIU), Nairobi; a Bachelor of Science, in Accounting and Finance, United States International University (USIU), Nairobi; and an ACI Dealing Certificate from the ACI Financial Markets Association. A senior banker of almost two decades, Anuja has several years of experience leading diverse teams in Sub-Sahara Africa, having worked with Citibank as Vice President in their Fixed Income, Currencies & Commodities (FICC) Sales, and most recently as their Regional Director, driving their Digital Strategy in automated trading systems for their Institutional and Corporate client base. She has had further experience in leading teams in Africa, that developed and executed strategic business initiatives that delivered revenue and market growth in Sub-Sahara Africa, encompassing foreign exchange products and investment portfolios for their regional, multi-national and local clientele. Anuja runs her own consultancy helping property management companies streamline operations and compliance.

Current KCB Group Board Appointments:

Anuja is a member of the HR & Governance, Audit & Risk and Nominations committees. She is a member of the board of KCB Bank Tanzania Limited.

Name: Dr. Joseph Kinyua, EGH
(72 Years)
Designation: Director
Date of Appointment to Board:
March 2023

Education and Professional Background:

Dr. Joseph Kinyua, EGH is the immediate former Head of Public Service. He has had an illustrious career spanning over 44 years in public service and has a wealth of experience in public administration. He has played a pivotal role in implementing key government initiatives and reforms including the liberalization of the banking sector, the foreign exchange market and the trade and capital accounts of the balance of payments among other initiatives.

Prior to his appointment as the Head of Public Service in 2013, he had served in various senior positions in the government, including as Permanent Secretary to the National Treasury.

Name: Paul Russo
(47 Years)
Designation: Chief Executive Officer
Date of Appointment to Board:
May 2022

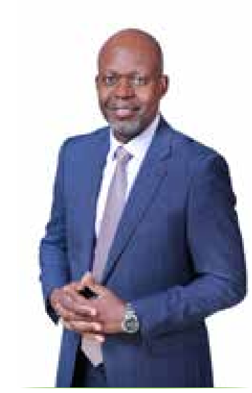
Education and Professional Background:

Paul Russo, EBS holds a Masters in Business Administration from Strathmore University Business School and a Bachelor of Business Management from Moi University. He also holds a Senior Executive Program for Africa Certificate from Harvard Business School. He is a member of the Kenya Bankers Association Governing Council. Paul sits on the Boards of the National Investment Council and the National Steering Committee on Drought Response. He is also a member of Steering Committee for the World Rally Championship (WRC) Safari Rally Project. He also serves in the United Nations Environment Program Finance (UNEP-FI) Leadership Council.

Prior to his appointment as the Group Chief Executive Officer, he served as the Group Regional Business Director and the MD NBK. A HR practitioner, he has close to 25 years of work experience spanning executive and key roles including Group HR Director, KCB Group. He has served in other big corporates such as Barclays, PwC, K-Rep Bank, EABL, and Unga Holdings.

Current KCB Group Board Appointments:

Paul is a member of the HR & Governance, Strategy & IT, Oversight and Nominations committees and serves as a member of the Boards of KCB Bank Kenya Limited, National Bank of Kenya Limited, BPR Bank Rwanda Plc and KCB Foundation.



Name: Lawrence Kimathi
(53 Years)
Designation: Group Finance Director
Date of Appointment to Board
May 2015

Education and Professional Background:

Lawrence Kimathi holds a Master in Business Administration (MBA) with merit from Warwick Business School UK, a Bachelor of Science degree majoring in Accounting from United States International University – Africa (USIU) and is a Certified Public Accountant of Kenya, CPA (K). He is a member of the Institute of Certified Public Accountants of Kenya and Institute of Directors. His senior leadership experience spans over 25 years having worked as Finance Director/CFO in several multinational organizations which include Cadbury East and Central Africa, AIG, East Africa Breweries Limited, BAT Sub Sahara Africa and BAT PLC in London.

Current KCB Group Board Appointments:

Lawrence is a member of the KCB Bank Uganda Limited Board.

Name: Bonnie Okumu
(43 Years)
Designation: Group General Counsel and Company Secretary
Date of Appointment:
March 2021

Education and Professional Background:

Bonnie Okumu has been the Group General Counsel since January 2021. Prior to this, she was the Director, Legal Services having been appointed as such in July 2018 having been promoted from the role of Head, Legal Services which she held since January 2014 when she joined KCB.

Before joining KCB, she was the Chief Legal and Regulatory Affairs Officer & Company Secretary at Telkom Kenya Limited. Prior to this she was the General Counsel & Company Secretary at Unilever Kenya Limited where she oversaw the legal and company secretarial functions for 9 operating companies in 7 countries in East and Southern Africa. Until she joined Unilever, she was the Regional Legal Manager for Nestle where she set up the legal department and led a team of lawyers in providing legal and tax advisory services to 14 operating entities in 20 countries in the Equatorial African Region. Earlier in her career, she was an associate at Dentons, Hamilton Harrison & Mathews and an audit assistant at Deloitte & Touché. She holds an LL.B from the University of Nairobi, is an advocate of the High Court of Kenya as well as a Certified Secretary (CS).

Shareholding

The company files monthly investor returns to meet the continuing obligations as prescribed by the Capital Markets Authority and the Nairobi Securities Exchange.

Directors Interests as at 31 December 2022

Name of Director	Number of Shares	% Shareholding
Cabinet Secretary to the Treasury of Kenya	635,001,947	19.7607
Mr. Andrew W. Kairu	30,700	0.0010
Mr. Lawrence Njiru	0	-
Mr. Ahmed Mahmoud	0	-
Dr. Obuya Bagaka	0	-
Ms. Alice Kirenge	0	-
Ms. Anuja Pandit	0	-
Dr. Joseph Kinyua	0	-
Mr. Paul Russo	0	-
Mr. Lawrence Kimathi	0	-

Shareholders' Profile as at 31 December 2022

Profile	Number of Shareholders	Number of Shares Held	% Shareholding
Kenyan Individual Investors	186,027	845,062,641	26.30
Kenyan Institutional Investors	6,607	1,819,603,469	56.62
East African Individual Investors	246	2,363,596	0.07
East African Institutional Investors	67	261,720,987	8.14
Foreign Individual Investors	601	70,122,076	2.18
Foreign Institutional Investors	67	214,590,046	6.68
Total	**193,615**	**3,213,462,815**	**100.00**

Summary of Totals

Shares Range	Shareholders	Number of Shares	% Shareholding
1 to 500	76,442	9,971,098	0.31
501 to 1,000	15,088	10,720,823	0.33
1001 to 5,000	73,963	180,859,096	5.63
5001 to 10,000	17,706	116,365,813	3.62
10,001 to 50,000	8,400	158,578,221	4.93
50,001 to 100,000	788	54,220,425	1.69
100,001 to 500,000	764	160,928,543	5.01
500,001 to 1,000,000	165	113,019,535	3.52
Over 1,000,000	299	2,408,799,261	74.96
Total	**193,615**	**3,213,462,815**	**100.00**

Major Shareholders

Shareholder	Number of Shares	% Shareholding
Cabinet Secretary to the Treasury of Kenya	635,001,947	19.76
National Social Security Fund	312,711,292	9.73
Stanbic Nominees Ltd A/C NR3530153-1	132,720,200	4.13
Kenya Commercial Bank Nominees Ltd A/C 927b	64,789,541	2.02
Standard Chartered Kenya Nominees Ltd A/C KE004667	63,984,400	1.99
Babla,Sandip Kana Sinh;Babla,Alka Sandip	29,514,900	0.92
Standard Chartered Nominees A/C 9688	29,013,023	0.90
Standard Chartered Nominees Resd A/C KE11436	28,544,093	0.89
Standard Chartered Nominees Non- Resd. A/C KE10085	27,574,726	0.86
Babla,Sandip Kanaksinh Karsandas	26,158,400	0.81
	1,350,012,522	**42.01**

Our intent is to take lead courageously and act with purpose

Financial Statements and Notes

For the Year Ended 31 December 2022

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KCB Group PLC
Corporate information
For the Year Ended 31 December 2022

Directors		Company Secretary
Mr. Andrew Kairu	- Chairman	Bonnie Okumu P. O. Box 48400 – 00100 Nairobi, Kenya
Mr. Paul Russo	- Group Chief Executive Officer (Appointed 25 May 2022)	
C. S. National Treasury	- Alternate Geoffrey Malombe	
Ms. Alice Kirenge		
Mr. Ahmed Mahmoud		
Mr. Lawrence Mark Njiru		
Mrs. Anne Eriksson		
Dr. Obuya Bagaka		**Auditor**
Ms. Anuja Pandit	- Appointed on 16 August 2022	PricewaterhouseCoopers LLP PwC Tower Waiyaki Way/Chiromo Road P. O. Box 43963 – 00100 Nairobi, Kenya
Mr. Lawrence Kimathi	- Group Finance Director	
Mr. John Nyerere	- Retired 13 June 2022	
Ms. Georgina Malombe	- Retired 16 June 2022	
Mr. Joshua Oigara	- Retired 25 May 2022	

Registered offices and principal places of business	
KCB Group PLC Kencom House Moi Avenue P. O. Box 48400 – 00100 Nairobi, Kenya	**KCB Bank Uganda Limited** Commercial Plaza 7 Kampala Road P. O. Box 7399 Kampala, Uganda
KCB Bank Kenya Limited Kencom House Moi Avenue P. O. Box 48400 – 00100 Nairobi, Kenya	**KCB Bank Burundi Limited** Boulevard Patrice Lumumba P. O. Box 6119 Bujumbura, Burundi
KCB Bank Tanzania Limited Harambee Plaza Ali Hassan Mwinyi Road/Kaunda Road Junction P. O. Box 804 Dar es Salaam, Tanzania	**National Bank of Kenya Limited** National Bank Building 18 Harambee Avenue P. O. Box 72866 – 00200 Nairobi, Kenya
KCB Bank South Sudan Limited KCB Plaza Ministry Road P. O. Box 47 Juba, South Sudan	**Trust Merchant Bank S. A** P. O. Box 1223 Avenue Lumumba Lubumbashi, DR Congo
BPR Bank Rwanda Plc KN 67 Street, 2 P. O. Box 1348 Kigali, Rwanda	**KCB Bank Kenya (Ethiopia Representative Office)** Morning Star Mall 4th floor Bole Medhanialem Addis Ababa, Ethiopia.

Principal Lawyers	
Iseme Kamau & Maema, Advocates P. O. Box 11866-00400 Nairobi, Kenya	**MMC Asafo LLP** P. O. Box 75362-00200 Nairobi, Kenya
Oraro & Company, Advocates P. O. Box 51236-00100 Nairobi, Kenya	**TripleOKLaw Advocates** P. O. Box 43170-00100 Nairobi, Kenya

The full list of the Group lawyers is available at Kencom House, the principal place of business of the Group.

KCB Group PLC
Report of the Directors
For the Year Ended 31 December 2022

Principal activities
The Company is licensed as a non-operating holding Company under the Banking Act (Cap 488). The principal activities of its main subsidiaries are provision of corporate, investment and retail banking services.

Results
The results of the Group and the Company are set out on pages 126 to 128.

Dividend
An interim dividend of KShs. 3,213 million (2021 – KShs. 3,213 million) was paid during the year. The Directors recommend the payment of a final dividend of KShs. 3,213 million (2021: KShs. 6,426 million), which together with the interim dividend brings the total dividends for the year to KShs. 6,426 million (2021: KShs. 9,640 million).

Directors
The Directors who served during the year and up to the date of this report are set out in page 112. All the Directors are non-executive other than the Group Chief Executive Officer and the Group Finance Director.

Acquisition of Trust Merchant Bank SA (TMB)
On 21 September 2022, KCB Group Plc shareholders approved the proposed acquisition of Trust Merchant Bank SA (TMB) in the Democratic Republic of Congo (DRC). This followed signing of a definitive agreement with shareholders of TMB to acquire 85% of the shares in TMB while the existing shareholders will continue to hold the balance for a period of not less than two years after which KCB will have the right to acquire their shares.

The acquisition was completed on 30 November 2022 at which KCB Group Plc took ownership control over the subsidiary. The Group is looking at obtaining synergy through this acquisition and increasing its market share in the regional banking sector.

Detailed information on this transaction is disclosed in Note 33.

Merger of KCB Bank Rwanda and Bank Populaire du Rwanda
Following regulatory approval, the two subsidiaries in Rwanda were merged into a single entity to operate as BPR Bank Rwanda Plc.

Business review and financial performance
The Group consolidation includes the results of the entities owned by KCB Group Plc. The entities operate in Kenya, Tanzania, South Sudan, Rwanda, Uganda, Burundi, and the Democratic Republic of Congo mainly undertaking retail and corporate banking business in the domicile countries. KCB Bank Kenya has a representative office in Ethiopia.

Interest income recorded a 15% increase from KShs. 114.8 billion to KShs. 132.0 billion. This is mainly due to the growth in interest income from government securities and interest income on loans and advances. This resulted from an increase in government securities from KShs. 276 billion to KShs. 295 billion and increase in loans and advances to customers from KShs. 675 billion to KShs. 863 billion.

The net fees and commission income increased by 19% from KShs. 10.4 billion to KShs. 12.4 billion due to increased customer transactions.

The Group's credit impairment losses decreased by 17% to KShs. 11.4 billion (2021: KShs. 13.7 billion). The profit for the year recorded a 20% increase from KShs. 34.2 billion to KShs. 40.8 billion mainly driven by growth in revenue and decrease in loan loss provisions.

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Group's overall risk management framework focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group.

This is entrenched in the Group's governance structure. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Board of Directors of the Group has established various committees including Audit and Risk, Human Resources and Governance, Nomination, Strategy and Information Technology, and Oversight committees, which are tasked with developing and continuous monitoring of the Group risk management policies in their specified areas. The detailed description and analysis of the key risks is set out on note 4 of the financial statements.

Employees' Welfare
Our leadership believes in creating an environment where high performing individuals care about each other and work towards achieving the success of the organization. Our leaders passionately drive clarity and direction allowing our employees to connect to each other as they are bound by a common mission and vision.

The Group's management focuses on building the right culture as a strategic human resource priority by ensuring that the Group's culture is embedded across all levels and the same is driven across the entire workforce. Having the right culture is an essential element for the Group's future development as we transform towards creating the digital era banking. Amongst the key components in this development is ensuring that our leaders are charged by the major roles of fostering strong leadership capabilities, talent management, enhancing employee relationship and development.

Environmental Footprint
At KCB Group, we believe that taking care of the ecological environment is a solemn responsibility for every human being. As a corporate citizen we have embraced a culture of responsible living, with the ultimate intention of building a sustainable work environment that has minimal or nil adverse effects on the environment.

Statement as to disclosure to the Group and Company's auditor
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 Company'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 Company's auditor is aware of that information.

KCB Group PLC
Report of the Directors
For the Year Ended 31 December 2022

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.

Events after the reporting period

There has been no event after the reporting date that require adjustment or disclosure to these financial statements.

By Order of the Board

Bonnie Okumu
Company Secretary
Nairobi

15 March 2023

KCB Group PLC
Directors' Remuneration Report
For the Year Ended 31 December 2022

Information not subject to audit
The KCB Group Plc. approach towards reward and recognition is to ensure that individuals are adequately compensated and recognized for their role towards the overall success of the Group's business.

KCB Group Plc. presents the Directors' Remuneration report for the year ended 31 December 2022 in line with The Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 which provides guidelines on Director's remuneration and in line with the provisions of The Companies Act, 2015.

During the year ended 31 December 2022, the Board of Directors consisted of:

(a) Executive Directors:
- (i) Mr. Paul Russo – Group Chief Executive Officer (Appointed 25 May 2022)
- (ii) Mr. Lawrence Kimathi – Group Finance Director
- (iii) Mr. Joshua Oigara (Retired 25 May 2022)

(b) Non-executive Directors:
- (i) Mr. Andrew W Kairu (Chairman)
- (ii) Cabinet Secretary - National Treasury (Alternate: Geoffrey Malombe)
- (iii) Mr. Lawrence Mark Njiru
- (iv) Mrs. Anne Eriksson
- (v) Mr. Ahmed Mahmoud
- (vi) Dr. Obuya Bagaka
- (vii) Mrs. Alice Kirenge
- (viii) Ms. Anuja Pandit (Appointed 16 August 2022)
- (ix) Ms. Georgina Malombe (Retired 16 June 2022)
- (x) Mr. John Nyerere (Retired 13 June 2022)

1. Directors Emoluments
The total non-executive directors remuneration was KShs. 126 million (2021 - KShs. 121 million) for the year. The total amount of emoluments paid to Directors for services rendered during the Year 2022 is disclosed on page 117.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which Directors acquired benefits by means of acquisition of the Company's shares.

2. Non-Executive Directors Remuneration and privileges policy
The Group has put in place a policy that adequately defines the remuneration and related privileges received by the Non-Executive Directors of the Company.

All the remuneration and privileges accorded to the Non-executive Directors and enumerated under the policy are competitive and reviewed according to the prevailing market trends for companies of a similar size and complexity of the Company.

The Board has in place a formal process of reviewing its performance and that of its committees and individual directors. Evaluation of the board is externally facilitated after every two years. Each director completes a detailed questionnaire designed to obtain feedback on the board's performance on the following areas:

- Strategic objectives.
- Risk governance.
- Board composition and skills.
- Board meetings and preparation.
- Board interaction and support.
- Performance of governance functions.
- Performance of Chairman, respective committees, and individual directors.

Each Non-Executive Director serves for a total non-renewable period of eight years from the date of appointment as a director within KCB Group. However, in accordance with the Articles of Association of the Company, one-third of the Non-executive Directors are required to resign and may offer themselves for reappointment to continue serving on the Board. No Director is entitled to any compensation upon the termination or end of their tenure as a member of the board.

The details of the tenure of the current Non-executive Directors is as follows:

Name	Appointment Date	Retirement Date
Mr. Andrew W. Kairu (Chairman)	4 June 2018	3 June 2026
C. S. National Treasury	Institutional	-
Mr. Lawrence Njiru	7 August 2018	6 August 2026
Mrs. Anne Eriksson	18 December 2019	23 March 2023*
Mr. Ahmed Mahmoud	16 July 2020	15 July 2028
Dr. Obuya Bagaka	6 October 2020	26 September 2027
Mrs. Alice Kirenge	10 November 2021	31 August 2025
Ms. Anuja Pandit	16 August 2022	15 August 2030

* Date of Resignation.

KCB Group PLC
Directors' Remuneration Report
For the Year Ended 31 December 2022

2. Non-Executive Directors Remuneration and Privileges Policy (Continued)

The Human Resources & Nominations Committee of the Board is responsible for setting and administering the Non-executive Directors remuneration policy.

The Human Resources & Nominations Committee continuously reviews the entitlements under the policy to ensure these are aligned to the market.

The following components are provided to the Non-executive Directors:

Monthly fees
These are paid to the Non-Executive Directors taking into account their responsibility as a Director of the Company. These are paid

Sitting allowance
A sitting allowance is paid to each Non-Executive Directors for attending a duly convened and constituted meeting of the Board or of any of the Committees.

Duty day allowance
An allowance paid to a Non-Executive Director for any day away from his regular station to attend to duties of the Company.

Telephone allowance
Non-Executive Directors are entitled to a monthly telephone allowance.

Club membership
Non-Executive Directors are entitled to paid membership to a social or fitness club.

Medical insurance cover
Provided to all Non-Executive Directors for their individual medical requirements covering both outpatient and in-patient requirements.

Professional Indemnity Cover
This is provided in line with best market practice to protect the Non-Executive Directors in undertaking their duties in such capacity.

3. Executive Directors Remuneration
The remuneration for Executive Directors is as per the negotiated employment contracts. Each Executive Director is employed on a fixed term basis. The fixed term contracts run for a period not exceeding 5 years. The contracts are renewable.

Executive Directors performance is measured based on a Balanced Score Card. Annual business performance targets are derived from the KCB Group three year (2020 – 2023) strategic plan. The key initiatives under the strategic plan include:

- Customer first with leading value propositions.
- Step change in efficiency and productivity.
- Digital leader and digital to the core.
- Scale to achieve regional relevance.

Key performance measures under the Balanced Score Card cover areas around:

- Financial performance.
- Customer and stakeholder satisfaction.
- Human capital, culture, learning and growth.
- Efficiency in internal business processes.

Executive Directors are entitled to the following remuneration:

Consolidated Basic Pay
This is the consolidated base salary paid to the Executive Director that includes an element of housing.

Bonus
Executive Directors are entitled to a performance-based bonus pay. Part of the bonus is deferred for payment in the future.

Allowances
Allowances paid include a house allowance, a car allowance, a telephone allowance and an allowance related to loan benefit adjustment.

Gratuity
This is paid to Executive Directors at the rate of 30% of the annual consolidated basic salary.

Club Membership
Executive Directors are entitled to paid membership to a social or fitness club.

Medical Insurance Cover
As provided to all employees, Executive Directors are entitled to medical insurance cover for their individual and family medical requirements covering both outpatient and in-patient requirements.

Professional Indemnity Cover
This is provided in line with best market practice to provide protection for the Executive Directors in undertaking their duties in such capacity.

The details of the contracts for the Executive Directors are as follows:

Name	Commencement Date	Duration	Unexpired term as at 31 December 2022	Termination Notice
Mr. Paul Russo	25 May 2022	5 years	4 Years 5 Months	3 months
Mr. Lawrence Kimathi	8 December 2022	5 years	5 years	3 months

KCB Group PLC
Directors' Remuneration Report
For the Year Ended 31 December 2022

3. Executive Directors Remuneration (Continued)

Auditable Portion

i. Non-Executive Directors' Fees, Allowances and other Benefits for The Year Ended 31 December 2022

Director's Name	Directors' fees KShs. '000'	Sitting allowance KShs. '000'	Other allowances[1] KShs. '000'	Non-cash benefit[2] KShs. '000'	Total KShs. '000'
Mr. Andrew Wambari Kairu	8,923	4,800	6,857	307	20,887
C. S. National Treasury	2,880	-	-	-	2,880
Eng. Stanley Kamau	-	11,550	386	208	12,144
Ms. Georgina Malombe[3]	3,317	2,279	963	208	6,767
Mr. John Nyerere[4]	2,484	1,940	288	208	4,920
Mr. Lawrence Njiru	7,914	5,938	1,097	208	15,157
Mrs. Anne Eriksson	4,640	10,793	1,806	208	17,447
Mr. Ahmed Mahmoud	3,781	5,794	1,367	208	11,150
Dr. Obuya Bagaka	6,110	7,990	1,859	242	16,201
Mrs. Alice Kirenge	5,210	6,487	2,986	268	14,951
Ms. Anuja Pandit[5]	852	2,039	496	208	3,595
GRAND TOTAL[6]					**126,099**

Notes:

(1) Other allowances include the telephone allowance, a meal allowance, and the duty day allowance.

(2) Non-cash benefits include medical insurance cover cost and entitlement, club membership and professional indemnity cover cost.

(3) Retired 16 June 2022.

(4) Retired 13 June 2022.

(5) Appointed 16 August 2022.

(6) The amount includes fees, allowances, and other benefits in respect of KCB Bank Kenya Limited, National Bank of Kenya Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Uganda Limited, BPR Bank Rwanda Plc, KCB Bank Burundi Limited, KCB Investment Bank Limited (Formerly KCB Capital Limited), KCB Bancassurance Intermediary Limited (formerly, KCB Insurance Agency Limited) and KCB Foundation. The Group Board nominates at least two of its members to sit on each subsidiary board.

ii. Non-Executive Directors Fees, Allowances and other Benefits for The Year Ended 31 December 2021

Director's Name	Directors' fees KShs. '000'	Sitting allowance KShs. '000'	Other allowances[1] KShs. '000'	Non-cash benefit[2] KShs. '000'	Total KShs. '000'
Mr. Andrew Wambari Kairu	8,923	3,800	2,724	194	15,641
C.S. National Treasury	2,820	-	-	-	2,820
Eng. Stanley Kamau	-	8,581	534	194	9,309
Mr. Tom Ipomai[3]	2,382	4,044	277	297	7,000
Ms. Georgina Malombe	6,905	5,381	364	194	12,844
Mr. John Nyerere	5,465	4,433	662	194	10,754
Mr. Lawrence Njiru	7,914	6,221	2,312	194	16,641
Mrs. Anne Eriksson	4,640	10,254	561	194	15,649
Mr. Ahmed Mahmoud	1,625	3,256	766	194	5,842
Dr. Obuya Bagaka	6,365	8,649	2,442	700	18,155
Mrs. Alice Kirenge[4]	4,070	2,213	317	194	6,794
GRAND TOTAL[5]					**121,450**

KCB Group PLC
Directors' Remuneration Report
For the Year Ended 31 December 2022

Notes:

(1) Other allowances include the telephone allowance, a meal allowance and the duty day allowance.

(2) Non-cash benefits include medical insurance cover cost and entitlement, club membership and professional indemnity cover cost.

(3) Retired on 8 July 2021.

(4) Appointed on 10 November 2021.

(5) The amount includes fees, allowances, and other benefits in respect of KCB Bank Kenya Limited, National Bank of Kenya Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Uganda Limited, BPR Bank Rwanda Plc, KCB Bank Burundi Limited, KCB Investment Bank Limited (Formerly KCB Capital Limited), KCB Bancassurance Intermediary Limited (formerly, KCB Insurance Agency Limited) and KCB Foundation. The Group Board nominates at least 1 of its members to sit on each subsidiary board.

iii. Executive Directors' Remuneration for The Year Ended 31 December 2022

		Bonus					
Director's Name	Salary KShs'000	Cash KShs'000	Deferred KShs'000	Allowances KShs'000	Gratuity KShs'000	Noncash benefit(1) KShs'000	Total KShs'000
Mr. Paul Russo	72,700	99,357	24,839	5,800	12,800	2,000	**217,496**
Mr. Lawrence Kimathi	50,800	42,084	12,378	-	13,800	1,500	**120,562**
Mr. Joshua Oigara	80,000	-	-	6,600	15,600	1,600	**103,800**

Note:

(1) Non-cash benefits include medical insurance cover, club membership and professional indemnity cover.

iv. Executive Directors' Remuneration for The Year Ended 31 December 2021

		Bonus					
Director's Name	Salary KShs'000	Cash KShs'000	Deferred KShs'000	Allowances KShs'000	Gratuity KShs'000	Noncash benefit(1) KShs'000	Total KShs'000
Mr. Joshua Oigara	76,400	188,300	62,800	16,600	22,900	1,600	**368,500**
Mr. Lawrence Kimathi	43,200	34,000	11,300	4,600	13,000	1,600	**107,700**

Note:

(1) Non-cash benefits include medical insurance cover, club membership and professional indemnity cover.

By Order of the Board

Alice Kirenge
Chairman, Human Resources & Governance Committee

Date: 15 March 2023

KCB Group PLC
Statement of Directors' Responsibilities
For the Year Ended 31 December 2022

The Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and Company as at the end of the financial year and of their profit or loss for that year. The directors are responsible for ensuring that the Group and Company keep proper accounting records that are sufficient to show and explain the transactions of the Group and Company; disclose with reasonable accuracy at any time the financial position of the Group and Company; and that enables them to prepare financial statements of the Group and Company that comply with prescribed financial reporting standards and the requirements of the Companies Act, 2015. They are also responsible for safeguarding the assets of the Group and Company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

ii. Selecting suitable accounting policies and then applying them consistently; and

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

Having assessed the Group's and 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 Group's and 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 15 March 2023 and signed on its behalf by:

Andrew Wambari Kairu
Chairman

Paul Russo, EBS
Chief Executive Officer

Anne Eriksson
Director

Bonnie Okumu
Secretary

Report of the independent auditor to the shareholders of KCB Group Plc

Report on the financial statements

Opinion

We have audited the accompanying financial statements of KCB Group Plc (the Company) and its subsidiaries (together, the Group) set out on pages 126 to 252, which comprise the consolidated statement of financial position at 31 December 2022 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2022, and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the Group and the Company 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.

Key audit matters

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

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Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu B Ngunjiri R Njoroge S O Nobert's B Okundi K Saiti

Report of the independent auditor to the shareholders of KCB Group Plc (continued)

Report on the financial statements (Continued)

Key audit matters (Continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
Credit risk assessment and determination of expected credit losses on loans and advances at amortised cost
As explained in Note 2 (j) and 4 (a) of the financial statements, determining expected credit losses on loans and advances is complex, judgmental and involves significant estimation uncertainty. IFRS 9, Financial Instruments, requires the directors to measure expected credit losses on a forward-looking basis reflecting a range of future economic conditions. The standard adopts a 3-stage model approach where the loans and advances are categorised in stage 1, 2 and 3 depending on whether the facilities are performing, have experienced significant increase in credit risk or are in default.
Changes to the assumptions and estimates used by management could generate significant fluctuations in the Group's financial results and materially impact the valuation of the portfolio of loans and advances.
The calculation of the expected credit losses involves complex mathematical models that are prone to data integrity or configuration errors, or mathematical formulaic errors.
This is an area of focus because of significant impact on the calculation of the expected credit losses:

the judgments made to determine the categorisation (staging) of individual loans and advances accounts in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used;
the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments of loans and advances, including any adjustments in relation to COVID-19 overlays; and
the appropriateness of forward-looking information used in the models; and
the mathematical logic, appropriateness and accuracy of the expected credit losses models used by the entities in the Group.

</td><td>
We evaluated the Group's methodology for determining expected credit losses, including enhancements in the year, against the requirements of IFRS 9.
Tested how the individual entities applied the system extracts of 'days past due (DPD)' report in categorising the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model and agreed these to the DPD reports from the IT systems and the respective customer files.
Reviewed judgments applied in the staging of loans and advances.
Tested the completeness of restructured loans listing and, on a sample basis, assessed the rationale for the restructures and the appropriateness of their subsequent measurement in accordance with IFRS 9 requirements.
Obtained an understanding of the basis used to determine the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD), including the cure rates and post write-off recovery rates for unsecured facilities.
Tested the completeness and accuracy of the historical data used in derivation of PDs, LGDs and EADs, and re-calculated the outcomes on a sample basis. For LGD, we tested the assumptions on the timing of the cash flows based on historical empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuers' reports.
On a sample basis, we recomputed the EADs for both on and off-balance sheet exposures to check their reasonableness, including applying cash conversion factors. We also reviewed judgments applied in the staging of loans and advances.
Corroborated the assumptions used for determination of forward-looking information (FLI) in the models using publicly available information.
Assessed the adequacy of the disclosures in the financial statements on the key judgements and assumptions in accordance with the requirement of IFRS 9.
</td></tr>
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Report of the independent auditor to the shareholders of KCB Group Plc (continued)

Report on the financial statements (Continued)

Key audit matters (Continued)

Key audit matter	***How our audit addressed the key audit matter***
Reliance on Information & Communications Technology systems for financial control and reporting. The Group's financial control, accounting and reporting processes are heavily dependent on complex information & communications technology systems and applications. Specifically, the calculation, recording and financial reporting of financial transactions and balances are significantly dependent on automated processes. Weaknesses in the design and operating effectiveness of the automated accounting procedures and related IT dependent manual controls could result in material errors in the financial information, which makes this an area of focus. Our audit focus on information & communications technology systems and applications and controls over financial reporting included the following areas: • management of logical access to critical systems including privileged access and developer access to production environment; • controls over changes of programs and systems developments; • automated application controls relating to processing of transactions, accounting and financial reporting; and • interfaces between the core financial reporting systems to banking systems and applications, including any manual adjustments to the financial information.	Assessed and tested the design and operating effectiveness of the controls over the integrity of information technology (IT) systems and applications that are relevant for financial accounting and reporting. Tested controls over programs development and changes, access to programs and data and IT operations including compensating controls where necessary. We also tested certain aspects of the security of the IT systems including logical access management and segregation of duties. Where, either design or operating effectiveness control deficiencies were identified, we altered our audit approach to test the compensating controls or increased the level of our tests of detail. These additional procedures mitigated the deficiencies or provided the additional audit comfort. Validated any manual adjustments to information generated by the IT systems and applications and assessed the appropriateness of the adjustments. Reperformed automated controls and calculations by the core banking systems and other significant applications to ensure that the applications are working accurately and as designed. This included recomputation of interest income, interest expense, fees and commission income and trading income.
Accounting for business acquisition As disclosed in Note 33 of the financial statements, the Company acquired controlling interest in Trust Merchant Bank SA (TMB) during the year. The directors have applied the principles of IFRS 3, Business Combinations in the measurement and recognition of assets and liabilities acquired and the interests in the acquiree held by other parties, and the disclosures in the financial statements. The determination of the fair value of the identifiable assets and liabilities acquired involves complex methodologies which are dependent on various assumptions and estimates. The assumptions, which are subject to estimation uncertainty, are derived from a combination of the acquirees' historical financial information, management's judgement, experts engaged by management and market data. Our audit focused on the validation of significant assumptions with greater levels of management judgement and for which variations could have a significant impact on the measurement of identifiable assets and liabilities acquired.	We discussed with management and experts engaged by management to understand the methodologies and significant assumptions used in determining the fair value of identifiable assets and liabilities of the acquiree. We evaluated the appropriateness of the methodologies and significant assumptions based on our understanding of the macro-economic environment in which the acquiree operates, and the acquiree's historical financial performance, including reasonably possible alternatives for significant assumptions. Where applicable, we validated the inputs into the fair value models particularly for intangible assets against the data sources for reliability and accuracy, and evaluated the reasonableness of the discount rates used in the models. We tested the mathematical soundness of the models used and reconciled the model outcomes to the financial statements. We evaluated and tested the disclosures made in the financial statements in relation to the acquisition for compliance with the requirements of IFRS 3.

Report on the financial statements (Continued)

Key audit matters (Continued)

Key audit matter	***How our audit addressed the key audit matter***
Provision for contingent liabilities As disclosed in note 47 of the financial statements, the group entities had several unresolved tax claims and legal matters arising in the ordinary course of business. The directors use the best available information to assess the likely outcome of the unresolved matters for purposes of estimating any potential liabilities to be recorded or determining the level of disclosures in the financial statements. The future outcome of these claims and legal proceedings could be materially different for the directors' judgements at the year end.	Our audit focused on assessing the reasonableness of the directors' judgements in relation to the unresolved tax claims and legal proceedings. Our procedures included: - obtaining legal confirmations from the individual entities' lawyers to assess the completeness and accuracy of management's register of unresolved tax claims and legal proceedings - detailed understanding of the significant unresolved tax claims and legal matters through discussions with the internal legal counsel and other senior management; - challenging management analysis of the matters and the potential financial exposures; and - where applicable, review of the independent external legal opinions obtained by the directors. We assessed the reasonableness of the estimates and judgements by the directors for financial reporting at the year end based on the best information available to them. We evaluated whether the disclosures in the financial statements appropriately reflect the significant uncertainties involved in the unresolved matters.

Other information

The other information comprises Corporate information, Report of the directors, Directors' remuneration report, Statement of directors' responsibilities which we obtained prior to the date of this auditor's report and the rest of the other information in the 2022 Integrated Report and Financial Statements which are expected to be made available to us after that date but does not include 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 have received prior to the date of this auditor's report 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.

When we read the rest of the other information in the 2022 Integrated Report and Financial Statements and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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Report of the independent auditor to the shareholders of KCB Group Plc (continued)

Report on 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's 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.

Report of the independent auditor to the shareholders of KCB Group Plc (continued)

Report on the financial statements (Continued)

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

- 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.

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

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

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

Report on other matters prescribed by the Companies Act, 2015

Report of the directors

In our opinion the information given in the report of the directors on pages 113 and 114 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 117 to 118 has been properly prepared in accordance with the Companies Act, 2015

FCPA Michael Mugasa, Practicing Certificate Number 1478
Engagement partner responsible for the audit
For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi
15 March 2023

Financial Statements
For the Year Ended 31 December 2022

Consolidated statement of profit or loss

	Note	2022 KShs million	2021 KShs million
Interest income	8	132,003	114,826
Interest expense	8	(31,098)	(24,463)
Net interest income		**100,905**	**90,363**
Fees and commission income	9	15,258	11,794
Fees and commission expense	9	(2,819)	(1,360)
Net fees and commission income		**12,439**	**10,434**
Net foreign exchange gain	10	11,079	6,547
Other operating income	11	3,789	1,290
Gain from bargain purchase	33	-	689
Total income		**128,212**	**109,323**
Allowance for expected credit losses	12	(10,300)	(13,998)
Net (loss)/gain from financial assets at fair value through profit or loss	13	(1,531)	284
		(11,831)	**(13,714)**
Net operating income		116,381	95,609
Staff costs	14	(30,422)	(25,070)
Depreciation and amortisation	15	(6,615)	(6,028)
Other operating expenses	16	(22,329)	(16,952)
Gain on monetary position	18	271	216
Share of net profit from investments accounted for using equity method	24	45	40
Profit before income tax		**57,331**	**47,815**
Income tax expense	19	(16,494)	(13,642)
Profit for the year		**40,837**	**34,173**
Attributable to :			
Equity holders of KCB Group PLC		40,613	34,092
Non-controlling interest		224	81
		40,837	**34,173**
Earnings per share (KShs.)			
Basic earnings per share	20	12.71	10.61
Diluted earnings per share	20	12.71	10.61

Financial Statements
For the Year Ended 31 December 2022

Consolidated statement of comprehensive income

	Note	2022 KShs million	2021 KShs million
Profit for the year		**40,837**	**34,173**
Other comprehensive income, net of income tax			
Items that will not be subsequently reclassified to profit or loss			
Re-measurement of post-employment obligations	48	(218)	(418)
Income tax expense thereon	34	65	125
		(153)	**(293)**
Items that may be subsequently reclassified to profit or loss			
Hyperinflation accounting restatement		171	(4)
Currency translation differences on foreign operations		616	(634)
Loss on financial assets at fair value through other comprehensive income		(4,218)	(899)
Income tax expense thereon	34	1,266	270
		(2,165)	**(1,267)**
Other comprehensive income for the year net of income tax		**(2,318)**	**(1,560)**
Total comprehensive income for the year		**38,519**	**32,613**
Attributable to			
Owners of KCB Group PLC		38,295	32,532
Non-controlling interest		224	81
Total comprehensive income for the year		**38,519**	**32,613**

Financial Statements
For the Year Ended 31 December 2022

Company statement of profit or loss and other comprehensive income

	Note	2022 KShs million	2021 KShs million
Dividend income	11	32,824	15,688
Interest income	8	19	157
Net foreign exchange gain	10	14	52
Fees and commission income	9	-	32
Other operating income	11	1,412	1,154
Total income		**34,269**	**17,083**
Staff costs	14	(1,210)	(1,044)
Depreciation and amortisation	15	(18)	(16)
Other operating expenses	16	(919)	(494)
Profit before income tax	17	**32,122**	**15,529**
Income tax credit/(expense)	19	82	(19)
Profit for the year		**32,204**	**15,510**
Total comprehensive income for the year		**32,204**	**15,510**
Earnings per share (KShs.)			
Basic		10.02	4.83
Diluted		10.02	4.83

Financial Statements
For the Year Ended 31 December 2022

Consolidated statement of financial position

ASSETS	Note	2022 KShs million	2021 KShs million
Cash and bank balances	21	91,131	71,612
Loans and advances to banks	22	163,632	26,642
Financial assets at fair value through other comprehensive income	23	113,498	139,704
Financial assets at fair value through profit or loss	28	17,403	5,462
Investment accounted for using equity method	24	1,077	402
Other assets and prepayments	25	49,738	27,329
Current income tax	19	336	-
Loans and advances to customers at amortised cost	26	860,680	671,819
Loans and advances at fair value through profit and loss	26	2,588	3,662
Financial assets at amortised cost	27	164,522	131,127
Property and equipment	29	26,618	16,993
Investment property	30	12,601	10,666
Right-of-use assets	31	3,233	4,862
Intangible assets	32	21,215	7,012
Deferred income tax	34	25,758	22,382
TOTAL ASSETS		**1,554,030**	**1,139,674**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks	35	92,787	47,817
Deposits from customers	36	1,135,417	837,141
Payables and accrued expenses	37	44,989	30,210
Lease liabilities	38	5,873	6,681
Deferred income tax	34	4,492	655
Current income tax	19	-	5,644
Retirement benefit obligation	48	585	458
Borrowings	40	63,610	37,561
Total liabilities		**1,347,753**	**966,167**
Equity			
Share capital	41	3,213	3,213
Share premium		27,690	27,690
Statutory credit risk reserve	42	26,707	7,959
Other reserves	42	(11,042)	(8,385)
Retained earnings		153,633	141,236
Total equity attributable to equity holders of KCB Group PLC		**200,201**	**171,713**
Non-controlling interest		6,076	1,794
Total equity		**206,277**	**173,507**
TOTAL LIABILITIES AND EQUITY		**1,554,030**	**1,139,674**

The financial statements set out on pages 126 to 252 were approved and authorised for issue by the Board of Directors on 15 March 2023 and were signed on its behalf by:

Andrew Wambari Kairu
Chairman

Paul Russo
Chief Executive Officer

Anne Eriksson
Director

Bonnie Okumu
Secretary

Financial Statements
For the Year Ended 31 December 2022

Company statement of financial position

	Note	2022 KShs million	2021 KShs million
ASSETS			
Cash and bank balances	21	712	517
Other assets and prepayments	25	62	4
Investment in subsidiary undertakings	33	114,270	87,964
Receivables from related parties	39	-	1,800
Property and equipment	29	828	614
Intangible assets	32	3	5
Current income tax	19	90	93
Deferred income tax	34	110	-
TOTAL ASSETS		**116,075**	**90,997**
LIABILITIES AND EQUITY			
Liabilities			
Payables and accrued expenses	37	766	606
Deferred income tax	34	-	7
Due to related parties	39	2,360	-
Total liabilities		**3,126**	**613**
Equity			
Share capital	41	3,213	3,213
Share premium		27,690	27,690
Retained earnings		82,046	59,481
Total equity		**112,949**	**90,384**
TOTAL LIABILITIES AND EQUITY		**116,075**	**90,997**

The financial statements set out on pages 126 to 252 were approved and authorised for issue by the Board of Directors on 15 March 2023 and were signed on its behalf by:

Andrew Wambari Kairu
Chairman

Paul Russo
Chief Executive Officer

Anne Eriksson
Director

Bonnie Okumu
Secretary

Financial Statements

For the Year Ended 31 December 2022

Consolidated statement of changes in equity

For year ended 31 December 2022	Share capital KShs million	Share premium KSh millions	Statutory credit risk reserve KShs million	Other re-serves KShs million	Retained earnings KShs million	Total KShs million	Non-con-trolling interest KShs million	Total equity KShs million
At start of year	**3,213**	**27,690**	**7,959**	**(8,385)**	**141,236**	**171,713**	**1,794**	**173,507**
Acquisitions (Note 33)	-	-	-	-	-	-	3,890	3,890
Profit for the year	-	-	-	-	40,613	40,613	224	40,837
Other comprehensive income (net of taxes)								
Foreign currency translation of foreign operations	-	-	-	448	-	448	168	616
Net loss on financial assets at fair value through other comprehensive income (net of tax)	-	-	-	(2,952)	-	(2,952)	-	(2,952)
Transfer from statutory credit risk reserve	-	-	18,748	-	(18,748)	-	-	-
Hyperinflationary accounting restatement	-	-	-	-	171	171	-	171
Re-measurement of post-employment benefits obligation (net of taxes)	-	-	-	(153)	-	(153)	-	(153)
Total comprehensive income	**-**	**-**	**18,748**	**(2,657)**	**22,036**	**38,127**	**392**	**38,519**
Transactions with owners recorded directly in equity								
Final dividend - 2021	-	-	-	-	(6,426)	(6,426)	-	(6,426)
Interim dividend- 2022	-	-	-	-	(3,213)	(3,213)	-	(3,213)
Total contributions and distributions	-	-	-	-	(9,639)	(9,639)	-	(9,639)
At end of year	**3,213**	**27,690**	**26,707**	**(11,042)**	**153,633**	**200,201**	**6,076**	**206,277**

Financial Statements

For the Year Ended 31 December 2022

Consolidated statement of changes in equity

For year ended 31 December 2021	Share capital KShs million	Share premium KShs million	Statutory credit risk reserve KShs million	Other reserves KShs million	Retained earnings KShs million	Total KShs million	Non-controlling interest KShs million	Total equity KShs million
At start of year	**3,213**	**27,690**	**2,155**	**(6,668)**	**116,033**	**142,423**	**-**	**142,423**
Acquisitions	-	-	-	-	-		1,684	1,684
Profit for the year	-	-	-	-	34,092	34,092	81	34,173
Other comprehensive income (net of taxes)								
Foreign currency translation differences for foreign operations	-	-	-	(663)	-	(663)	29	(634)
Net loss on financial assets at fair value through other comprehensive income (net of tax)	-	-	-	(629)	-	(629)	-	(629)
Transfer to statutory credit risk reserve	-	-	5,804	-	(5,804)	-		-
Hyperinflationary accounting restatement	-	-	-	(132)	128	(4)	-	(4)
Re-measurement of post-employment benefits obligations (net of taxes)	-	-	-	(293)	-	(293)	-	(293)
Total comprehensive income	**-**	**-**	**5,804**	**(1,717)**	**28,416**	**32,503**	**110**	**32,613**
Transactions with owners recorded directly in equity								
Interim dividends paid in 2021	-	-	-	-	(3,213)	(3,213)	-	(3,213)
Total contributions and distributions	**-**	**-**	**-**	**-**	**(3,213)**	**(3,213)**	**-**	**(3,213)**
At end of year	**3,213**	**27,690**	**7,959**	**(8,385)**	**141,236**	**171,713**	**1,794**	**173,507**

Financial Statements
For the Year Ended 31 December 2022

Company statement of changes in equity

For year ended 31 December 2022	Share capital KShs million	Share premium KShs million	Retained earnings KShs million	Total KShs million
At start of year	**3,213**	**27,690**	**59,481**	**90,384**
Profit for the year	-	-	32,204	32,204
Other comprehensive income (net of taxes)	-	-	-	-
Total comprehensive income	-	-	32,204	32,204
Transactions with owners recorded directly in equity				
Dividend paid in 2022	-	-	(9,639)	(9,639)
Total contributions and distributions	-	-	(9,639)	(9,639)
At end of year	**3,213**	**27,690**	**82,046**	**112,949**

Financial Statements

For the Year Ended 31 December 2022

Company statement of changes in equity

For year ended 31 December 2021	Share capital KShs million	Share premium KShs million	Retained earnings KShs million	Total KShs million
At start of year	3,213	27,690	47,184	78,087
Profit for the year	-	-	15,510	15,510
Other comprehensive income (net of taxes)	-	-	-	-
Total comprehensive income	**-**	**-**	**15,510**	**15,510**
Transactions with owners recorded directly in equity				
Dividend paid in 2020	-	-	(3,213)	(3,213)
Total contributions and distributions	**-**	**-**	**(3,213)**	**(3,213)**
At end of year	**3,213**	**27,690**	**59,481**	**90,384**

Financial Statements
For the Year Ended 31 December 2022

Consolidated statement of cashflows

	Note	2022 KShs million	2021 KShs million
Net cash flows generated from operating activities	44	**49,477**	**9,319**
Investing activities			
Proceeds from disposal of property and equipment		7	31
Purchase of intangible assets	32	(1,309)	(1,054)
Purchase of property and equipment	29	(4,013)	(2,746)
Payment for acquisition of subsidiary, net cash acquired	33	104,040	(4,846)
Net cash flows from investing activities		**98,725**	**(8,615)**
Financing activities			
Proceeds from borrowings	40	20,535	-
Payment of principal portion of borrowings	40	(2,638)	(3,077)
Payment of principal portion of lease liabilities		(497)	(1,231)
Dividends paid		(9,639)	(3,213)
Net cash flows from financing activities		**7,761**	**(7,521)**
Increase in cash and cash equivalents		155,963	(6,817)
Exchange differences		(704)	(328)
Cash and cash equivalents at start of year		58,029	65,174
Cash and cash equivalents at end of year	44	**213,288**	**58,029**

Financial Statements
For the Year Ended 31 December 2022

Company statement of cashflows

	Note	2022 KShs million	2021 KShs million
Net cash flows generated from operating activities	44	**36,368**	**10,897**
Investing activities			
Additions of property and equipment		(228)	(13)
Payment for acquisition of subsidiary, net cash acquired	33	(25,111)	-
Additional investment in subsidiaries	33	(1,195)	(8,301)
Net cash flows from investing activities		**(26,534)**	**(8,314)**
Financing activities			
Dividends paid		(9,639)	(3,213)
Net cash flows used in financing activities		**(9,639)**	**(3,213)**
Increase in cash and cash equivalents		195	(630)
Cash and cash equivalents at start of year		517	1,147
Cash and cash equivalents at end of year	44	**712**	**517**

Financial Statements
For the Year Ended 31 December 2022

Notes

1. Reporting entity

KCB Group Plc is incorporated in Kenya under the Kenyan Companies Act, 2015 and has subsidiaries in Kenya, South Sudan, Tanzania, Uganda, Rwanda, Burundi and the Democratic Republic of Congo. The consolidated financial statements of the Company as at and for the year ended 31 December 2022 comprise the Group and its subsidiaries (together referred to as the "Group" and individually referred to as the "Company") and the Group's interest in associates. The address of its registered office is as follows:

Kencom House
Moi Avenue
P. O. Box 48400 - 00100
Nairobi, Kenya

The Company has a 100% ownership in KCB Bank Kenya Limited, Kenya Commercial Finance Company Limited, Savings & Loan Kenya Limited, Kenya Commercial Bank Nominees Limited, Kencom House Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Uganda Limited, KCB Bank Burundi Limited, KCB Insurance Agency Limited, KCB Capital Limited, National Bank of Kenya, 87.6% ownership in BPR Rwanda, 85% ownership in Trust Merchant Bank SA (TMB), 20% ownership in Kenya Mortgage Refinance Company (KMRC), and a 45% ownership in United Finance Limited.

The shares of the Company are listed on the Nairobi Securities Exchange, Uganda Securities Exchange, Dar-es-Salaam Stock Exchange, and Rwanda Stock Exchange.

2. Summary of significant accounting policies

(a) Compliance with IFRS

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS and the Companies Act, 2015. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

For purposes of the Kenyan Companies Act, 2015 reporting, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and the statement of other comprehensive income in these financial statements.

(b) Basis of preparation

The financial statements have been prepared on the historical cost basis except for the following:

- Financial assets at fair value through profit or loss are measured at fair value;
- Financial assets at fair value through other comprehensive income are measured at fair value;
- Investment property is measured at fair value; and,
- The liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains less unrecognised past service cost and unrecognised actuarial losses.

(c) Changes in accounting policies and disclosures

The accounting policies set out below have been applied consistently to all years presented on these financial statements and have been applied consistently by the Group.

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

c) Changes in accounting policies and disclosures (Continued)

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2022. These standards and amendments did not have a material impact on the financial statements.

Title	Key requirements	Effective Date
Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.	Annual periods beginning on or after 1 January 2022
Amendment to IFRS 3, 'Business combinations' *Asset or liability in a business combination clarity*	The Board has updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.	Annual periods beginning on or after 1 January 2022
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.	Annual periods beginning on or after 1 January 2022
Annual improvements cycle 2018 - 2020	These amendments include minor changes to: • IFRS 1, 'First time adoption of IFRS' has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS. • IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. • IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives.	Annual periods beginning on or after 1 January 2022

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

c) Changes in accounting policies and disclosures (Continued)

(ii) New standards, amendments and interpretations issued not yet effective

The below new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group.

Title	Key requirements	Effective Date
IFRS 17 Insurance contracts	IFRS 17 requires a current measurement model where estimates are remeasured in each reporting period. Contracts are measured using the building blocks of: • discounted probability-weighted cash flows • an explicit risk adjustment, and • a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.	Annual periods beginning on or after 1 January 2023
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the entity's expectations or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.	Annual periods beginning on or after 1 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.	Annual periods beginning on or after 1 January 2023
Definition of Accounting Estimates-Amendments to IAS 8	The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, whereas changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.	Annual periods beginning on or after 1 January 2023

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

c) Changes in accounting policies and disclosures (Continued)

(ii) New standards, amendments and interpretations issued not yet effective(Continued)

Title	Key requirements	Effective Date
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS *12*	The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with: • right-of-use assets and lease liabilities, and • decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets. The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate. IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.	Annual periods beginning on or after 1 January 2023
Sale or contribution of assets between an investor and its associate or joint venture *(Amendments to IFRS 10 and IAS 28)*	The IASB has made limited scope amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and their associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.	Annual periods beginning on or after 1 January 2023

(d) Basis of consolidation

(i) Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identified net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

d) Basis of consolidation (Continued)

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The subsidiaries are shown in Note 33.

(iii) Non-controlling interest (NCI)

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Functional and presentation currency

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Kenyan Shillings (KShs.), which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within net foreign exchange gain. All other foreign exchange gains and losses are presented in the statement of profit or loss within 'other income' or 'other expenses'.

(f) Use of estimates and judgement

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(g) Foreign currency translation

(i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 recognised in the income statement, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

g) Foreign currency translation (Continued)

i) Transactions and balances (Continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Translation differences on non-monetary financial assets, such as equities classified as fair value through other comprehensive income, are included in other comprehensive income.

(ii) Group Companies

The results and financial position of all the group entities (one of which has the currency of a hyper-inflationary economy as at 31 December 2022) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of foreign subsidiaries are translated into Kenya Shillings at the rate of exchange ruling at the reporting date;

(ii) income and expenses for each statement of comprehensive income are translated at the weighted average exchange rates for the period; and

(iii) exchange differences arising on translation are recognised in other comprehensive income and accumulated in equity in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

The financial statements for KCB Bank South Sudan Limited have been presented in line with IAS 29 for hyperinflationary economies. Judgment has been used in the various assumptions used such as the consumer price indices for the various years due to limitation of data available. Refer to Note 49.

(h) Recognition of income and expenses

(i) Interest income and expenses

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

h) Recognition of income and expenses (Continued)

i) Interest income and expenses (Continued)

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at fair value through other comprehensive income.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

Interest income and expense on other financial assets and financial liabilities at fair value through profit or loss (FVTPL) are presented in net income from other financial instruments at FVTPL.

(ii) Dividend income
Dividend income is recognised when the Group's right to receive payment is established.

(iii) Risk premium
Risk premium fees are charged on unsecured loans issued to customers and members of staff and is meant to mitigate against risk of default arising from permanent death or disability. The net fees, minus any claims or other costs incurred, are recognised upfront as a liability and are amortised into the profit or loss over the tenure of the loan.

(iv) Fees and commission income and expenses
Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(v) Rental income
Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

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

(i) Income Tax

(i) Current income Tax
Current income tax expense comprises current income tax and change in deferred income tax. Income tax expense is recognized in profit or loss except to the extent that it related to items recognized directly in equity or other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. The amount of tax payable or recoverable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

(ii) Deferred Income Tax
Deferred income tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination, and which affects neither accounting nor taxable profit. It is also not recognised for temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future and the investor is able to control the timing of the reversal of the temporary difference.

Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis, or their tax assets and liabilities will be realized simultaneously.

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

i) Income Tax (Continued)

ii) Deferred Income Tax (Continued)

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(j) Financial assets and liabilities

(i) Recognition and measurement

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e., day 1 profit or loss).
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e., day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

(ii) Classification and subsequent measurement of financial instruments

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL.

Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets, the amount presented on the statement of financial position represent all amounts receivable including interest accruals.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

IFRS 9 specifically requires:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at Fair Value Through Other Comprehensive Income (FVTOCI);

However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset- by-asset basis:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income; and
- the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount

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For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(j) Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement of financial instruments (Continued)

Financial assets (Continued)

Debt instruments at amortised cost or at FVTOCI (Continued)

may change over the life of the financial asset (e.g., if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset.

The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument; therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios.

The Group considers all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g., whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Non-recourse loans

Non-recourse loan is a type of loan secured by collateral, which is usually property. If the borrower defaults, the Group can seize the collateral but cannot seek out the borrower for any further compensation, even if the collateral does not cover the full value of the defaulted amount.

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(j) Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement of financial instruments

Non-recourse loans (Continued)

The guidelines/procedures on dealing with non-recourse loans as detailed in the Non-Performing Debts Management manual which summarily states that:

a) It is not the Group's policy to "nurse" or warehouse properties until the market picks up but to dispose them into the market quickly and at the best price. Disposal methods should be reviewed continuously to ensure the most effective method is being used.

b) While assets are awaiting disposal, the Group should make sure that proper administration is undertaken on these assets to protect their value.

c) Asset disposal should start immediately when the asset becomes ready for sale. This is specifically defined as the time when:

   i. The client surrenders voluntarily the asset or has agreed for the Group to sell the property.

   ii. The Group is awarded possession of the property by legal or other means. As the case may be, titles and ownership documents have been transferred to the Group's name and registered with the appropriate Land Registry.

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.

Converting/liquidating the assets in the Group's possession now is still better than holding the assets for a projected upturn in market price in the future which often do not materialize.

The Group is not in asset and property trading/ management, and thus does not take positions on the market trends.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/ losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 5- Fair value of financial instruments.

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment of financial assets

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

- loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

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

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).
- A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 3.

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(j) Financial assets and liabilities (Continued)

Classification and subsequent measurement of financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

More information on measurement of ECLs is provided in note 4, including details on how instruments are ranked when they are assessed on a collective basis.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

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

Definition of default
Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see note 3).

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

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

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

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(j) Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement of financial instruments (Continued)

Financial assets (Continued)

Definition of default (Continued)

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending.

Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. More details are provided in note 3. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore, credit impaired assets will include defaulted assets, but will also include other non-defaulted assets given the definition of credit impaired is broader than the definition of default.

Significant increase in credit risk

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

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information. See note 3 for more details about forward-looking information.

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

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think- tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour.

The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

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

The PDs used are forward-looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL (please refer to note 4).

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

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

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

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(j) Financial assets and liabilities (Continued)

ii) Classification and subsequent measurement of financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk (Continued)

of credit-impairment the assets are at stage 3 of the impairment model.

More information about significant increase in credit risk is provided in note 4.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy which applies for corporate and retail lending.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

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

A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the Group considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition.

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

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

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

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Group performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer credit impaired. The loss allowance on forborne loans will generally only be measured based

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For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

j) Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement of financial instruments (Continued)

Financial assets (Continued)

Modification and derecognition of financial assets (Continued)

on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

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

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

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss.

A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write-off

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

Presentation of allowance for ECL in the statement of financial position

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investment's revaluation reserve;
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

j) Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement of financial instruments (Continued)

Presentation of allowance for ECL in the statement of financial position (Continued)

Financial liabilities
value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. For all financial liabilities, the amount presented on the statement of financial position represent all amounts payable including interest accruals. Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the ranking is provided internally on that basis; or
- it forms part of a hybrid (combined) contract, containing one or more embedded derivatives that significantly modifies the cash flows of the contract, or it is clear with little or no analysis that separation of the embedded derivative is not prohibited.

Financial liabilities at fair value through profit and loss (FVTPL) are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains, and losses are recognised in profit or loss.

Fair value is determined in the manner described in note 5.

Other financial liabilities
Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "interest income and expenses section" above.

Modification and derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. To determine if the modified terms of a

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(j) Financial assets and liabilities (Continued)

ii Classification and subsequent measurement of financial instruments (Continued)

Financial liabilities (Continued)

liability are substantially different to the original terms a similar process with modification of financial assets is followed. The modification is assessed at first on a qualitative basis, factors such as a change in currency or the introduction of a non-closely related embedded derivative that significantly modifies the cash flows are regarded as substantially different. If it is not clear from the qualitative assessment that a modification has resulted in a substantial change in a financial liability, a quantitative assessment is applied. It is assumed that the terms of the financial liability are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the Group recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The Group recognises any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification. The financial liability modification gain/loss is not significant for the Group. Modification gains are presented in 'other income' and modification losses are presented in 'other expenses' in the profit or loss account.

Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(k) Property and equipment

(i) ***Recognition and measurement***

Items of property and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Right of use assets are recognized at the commencement of the lease contract and is measured at cost less accumulated depreciation and accumulated impairment.

Property and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or at the expiration of a lease contract for right of use assets. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

(ii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each class of property and equipment. The annual depreciation rates in use are:

Freehold land	Nil
Leasehold improvements	Rates based on the shorter of the lease term or estimated useful lives
Motor vehicles	25%
Furniture and fittings	10%
Office equipment	20%
Computers	20%

The residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Changes in the expected useful life, residual values or methods of depreciation are accounted for as changes in accounting estimates.

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(k) Property and equipment (Continued)

(iii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Group. Recurring repairs and maintenance costs are expensed as incurred.

(l) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized on a straight-line basis in profit or loss over their estimated useful economic lives, from the date that they are available for use.

The amortization method, useful life and the residual value are reviewed at each reporting date and adjusted if appropriate. Changes in the expected useful life, residual value or amortization method are accounted for as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

The useful lives of intangible assets are assessed to be either finite or indefinite. Costs associated with maintaining computer software programme are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programme beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortized using the straight-line method over a period of five years.

There are no intangible assets with indefinite useful lives.

(m) Leases

The Group has adopted COVID-19-Related Rent Concessions – Amendment to IFRS 16 issued on 28 May 2020. The amendment introduces an optional practical expedient for leases in which the Group is a lessee – i.e., for leases to which the Group applies the practical expedient, the Group is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications. The Group has applied the amendment retrospectively. The amendment has no impact on retained earnings at 1 January 2022.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

The Group leases several retail network premises (branches) and vehicles. The branch leases typically run for a period of 6 years, with an option to renew the lease after that date. Lease payments are renegotiated after the expiry of the lease to reflect market rental values. Some leases provide for additional rent payments that are based on changes in local price indices. Leases for the vehicles typically run for a period of two years with no renewal options.

(i) Group as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Practical expedients applied

In applying IFRS 16, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- accounting for operating leases with a remaining lease term of less than 12 months as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(m) Leases (Continued)

(i) Group as a lessee (Continued)

reflects that the Group will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

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

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Group as a lessor
At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for a major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in IFRS 16 to the net investment in the lease (see Note 31). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

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

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in profit or loss in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

(o) Employee benefits
The Group operates both a defined contribution plan and defined benefit plan.

(i) Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which the Group pays fixed

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(o) Employee benefits (Continued)

(i) Defined contribution plans (Continued)

contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as staff costs in profit or loss in the periods during which related services are rendered. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Group also contributes to the statutory defined contribution in the various countries in which it operates. The Group's contribution to these schemes is charged to the income statement.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of the economic benefits available in the form of any refunds from the plan or deductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which compromise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised immediately in other comprehensive income.

The Group determines the net interest (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during a period as a result of contributions and benefit payments.

Net interest expense and other expenses related to the defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that employees have earned in return for their service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on settlement of a defined benefit plan when the settlement occurs.

(iii) Other post – employment obligations

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the periods in which they arise.

(iv) Short-term benefits

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity-based benefits and termination benefits.

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

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(v) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(p) Fiduciary assets

When the Group acts in a fiduciary capacity such as a nominee or agent, assets and income arising thereon with related undertakings to return such assets to customers are excluded from these financial statements.

(q) Contingent liabilities and loan commitments

Letters of credit, acceptances, guarantees and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the Directors.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

(r) Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. Refer to note 20.

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(s) Dividends

Dividends are recognised as a liability in the period in which they are declared and approved.

(t) Sale and repurchase agreements

Securities sold under sale and repurchased agreements (Repos) are retained in the financial statements with the counterparty liability included in amounts due to banking institutions. Securities purchased from the Central Bank of Kenya under agreement to resell (reverse Repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

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

(u) Related parties

This relates to transactions entered into between groups entities at arms-length.

(v) Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(w) Share capital and reserve

Ordinary shares are classified as share capital in equity. Any premium received over and above the par value of the shares is classified as share premium.

(x) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(y) Fair value measurements

IFRS 13, Fair Value Measurement, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). That definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement.

When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk.

As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value. The standard explains that a fair value measurement requires an entity to determine the following:

- the particular asset or liability being measured;
- for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;
- the market in which an orderly transaction would take place for the asset or liability; and
- the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.

(z) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(aa) Investment property

Investment property relate to collateral (mainly properties) transferred to the bank to extinguish outstanding loan balances which are in default. The Group holds these properties for a considerable period of time in expectation of capital appreciation.

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. The gain or loss on disposal of investment property is recognised in profit or loss.

The fair value of investment property is determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

(ab) Investment in associates

Associates are all entities over which the Group has significant influence but not control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. This is

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

2. Summary of significant accounting policies (Continued)

ab) Investment in associates (Continued)

generally the case where the Group holds between 20% and less than 50% of the voting rights of the entity. In assessing existence of significant influence, the Group considers among other parameters whether there is:

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in the policy-making process and material transactions between the investor and the investee;
- Interchange of managerial personnel between the investor and the investee; and
- Provision of essential technical information by the investor to the investee

Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividend received or receivable from associates are recognised as a reduction in the carrying amount of the investment. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

In certain instances, the requirement that significant influence arises from a 20% or more in investments can be invalidated where an entity can demonstrate that it does not have significant influence, or there is demonstrable presence of significant influence in an investment of less than 20% based on the above assessment criteria.

Investments in associates are accounted for using the equity method of accounting. The initial investment is recognised at cost of acquisition and any share of profit or loss from the investment is reflected as changes in the value of the investment.

Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

(ac) Comparatives

Except otherwise required, all amounts are reported or disclosed with comparative information. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3. Critical accounting estimates and judgement

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Critical judgements in applying the Group's accounting policies

(a) Judgments

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

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets and liabilities sections of note 1). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk: As explained in note 1, ECL is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to note 4(a) for more details.

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

3. Critical accounting estimates and judgement (Continued)

Critical judgements in applying the Group's accounting policies (Continued)

a) Judgments (Continued)

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

Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 1 and note 4 for more details on ECL and note 7 for more details on fair value measurement.

Internal governance and controls were put in place in order to monitor the post-model adjustments based on the economic performance in the midst of the pandemic.

Hyperinflation accounting: The directors evaluated and determined the economy of South Sudan to be hyperinflationary. Significant judgments to be made considering guidelines provided in IAS 29. The financial statements and corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency, and as a result are stated in terms of the measuring unit current at the end of the reporting period.

Factors considered in determining and concluding that the South Sudan economy was hyperinflationary have been included under note 48.

(b) Assumptions and estimation uncertainties

The information relating to assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the financial statements are set out below.

(i) ***Impairment losses on loans and advances***

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Group's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by the Directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

The Group also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances accounts cutting across various industries. Assets with similar risk characteristics are ranked together for the purpose of determining the collective impairment in the Group.

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

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

b) When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to note 3 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward-looking information.

c) Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See note 3 for more details, including analysis of the sensitivity of the reported ECL.

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

3. Critical accounting estimates and judgement (Continued)

(b) Assumptions and estimation uncertainties (Continued)

(i) Impairment losses on loans and advances (Continued)

d) Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See note 3 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

e) Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 5 for more details on fair value measurement.

(ii) ***Fair value of financial instruments***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date.

All financial instruments are initially recognized at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value. The fair values of quoted financial instruments in active markets are based on current prices with no subjective judgments. If the market for a financial instrument does not exist or is not active including for unlisted securities, the Group establishes fair value by using valuation techniques.

These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(iii) ***Retirement benefits***

The cost of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty and a change in any of the assumptions will alter the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Refer to note 47 for more information.

(iv) ***Property and equipment***

Property and equipment are depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

(v) ***Income taxes***

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax provisions in the period in which such determination is made.

(vi) ***Leases***

The right of use is depreciated over the lease term considering the renewal option.

The Group will renew the lease when it is reasonably certain that the lease location is still economically viable to conduct business.

The Group will bear restoration costs upon relocation or end of lease where such is stipulated in the lease agreement.

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and 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 Group's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group has established the Credit, Audit, Risk, Human Resources and Procurement and Information Technology committees, which are responsible for developing and monitoring the Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, 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.

The Risk Committee is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in these functions by a Risk and Compliance department which undertake reviews of risk management controls and procedures, the results of which are reported to the Risk Committee.

(a) Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

The Board of Directors has delegated responsibility for the management of credit risk to the Executive Credit Committee, which is responsible for oversight of the Group's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers. Larger facilities require approval by the Management Credit Committee or the Board Credit Committee as appropriate.
- *Reviewing and assessing credit risk.* The Credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. 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 Group's risk gradings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Board Credit Committee.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the credit department on the credit quality of local portfolios and appropriate corrective action is taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Group in the management of credit risk.

Significant increase in credit risk

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

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

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Internal credit risk ratings (Continued)

are defined using qualitative and quantitative factors that are indicative of risk of default.

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Bank bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

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

The table below provides a mapping of the Group's internal credit risk grades.

Group's credit risk grades	Description	IFRS 9 Classification
10	Normal risk	Stage 1
20	Watch risk	Stage 2
30	Substandard risk	Stage 3
40	Doubtful risk	
50	Loss	

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices. The Group generates a 'base case' scenario of the future direction of relevant economic variables for each region as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative. The table below summarizes per type of asset the range above which an increase in lifetime PD is determined to be significant, as well as some indicative qualitative indicators assessed.

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes. • Data from credit reference agencies, press articles, changes in external credit ratings. • Quoted bond and credit default swap (CDS) prices for the borrower where available. • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	• Internally collected data on customer behaviour – e.g. utilisation of credit card facilities. • Affordability metrics. • External data from credit reference agencies, including industry-standard credit scores.	• Payment record – this includes overdue status as well as a range of variables about payment ratios. • Utilisation of the granted limit. • Requests for and granting of forbearance. • Existing and forecast changes in business, financial and economic conditions.

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Internal credit risk ratings (Continued)

The table below provides an indicative mapping of how the Group's internal credit risk grades relate to PD and, for the wholesale portfolio, to external credit ratings of Moody's and S&P. The risk ratings are composed of a combination of the risk factors below. Each Risk factor has parameters which are assessed and the total score in each is mapped onto a rating

Risk Factor	Description	Weight
Financial Risk	Is the assessment of entity's assets & liabilities structure (i.e. the mix of long- and short-term debt, maturity structure, interest rates, collateralization and other elements), cash flows and P&L in the light of current financing conditions.	50%
Company	Is the assessment of the size and scope of the rated entity, which often drives its diversification in terms of products, customers and geography	10%
Management	Is the assessment of the quality and experience of the management team as well as its strategic objectives in light of the sector specifics.	10%
Banking Relationship	Is the assessment of the current and historical behaviour of the entity's with bank products	20%
Industry	Is the assessment of entity's future market, regulatory environment and industry environment with insights into competition, entry barriers and trends.	10%

Corporate

The corporate portfolio of the Group is comprised of loans and advances to banks, public sector entities, sovereigns, corporates and other businesses.

Staging	12-month weighted-average PD	Internal risk rating	Days past due
Grade 10	0.05%	AAA to A	0 - 30 days
Grade 20	12.611%	B- to C	31 – 89 days
Grade 30 – Grade 50	100%	Default	90 days and above

Retail & mortgage

The retail portfolios are comprised of mortgage lending, personal loans and credit cards.

Staging	12-month weighted-average PD Personal loans	12-month weighted-average PD Mortgage loans
Grade 10	5%	9%
Grade 20	57%	43%
Grade 30 – Grade 50	100%	100%

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

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

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

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Internal credit risk ratings (Continued)

Relationship between the Group's internal credit ratings and external ratings
The Group's rating method comprises 2 rating levels for instruments not in default (Stage 1 & 2) and one default class (stage 3). The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of observed default trends. The Group's quantitative credit quality grading as compared to Central Bank of Kenya's prudential guidelines grading is summarised in the table below;

Staging	CBK grading	Days past due	Credit quality
Stage 1	Normal	Up to date within contractual terms or has less than 30 days arrears	Performing
Stage 2	Watch	31 to 90 days	Performing-SICR
Stage 3	Substandard	91 to 180 days	In Default
	Doubtful	181 to 360 days	
	Loss	above 360 days	

In addition to the standard credit ratings above, the Group also utilises other qualitative information relating to counterparties to determine their internal credit grading.

Incorporation of forward-looking information
The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2022 for the years 2022 to 2026, for Kenya, Tanzania, Uganda, Rwanda, South Sudan and Burundi which are the countries where the Group operates and therefore is the country that has a material impact in ECLs.

Corporate

Macro-economic factor	2022	2023	2024	2025	2026
Consumer price index inflation, 2010=100, EOP	222.456	233.802	247.362	260.472	277.403
Lending rate, %, AVE	10	10.36	10.36	10	9.64
Nominal GDP per capita, USD	2,028.173	2,135.784	2,284.177	2,453.174	2,702.763

Retail

Macro-economic factor	2022	2023	2024	2025	2026
Total debt service per capita, USD	71.68	87.15	95.60	95.73	107.63
Nominal GDP per capita, *LCU	236,890.59	258,323.02	280,954.71	305,260.16	333,862.84
Private final consumption per capita, USD	1,589.28	1,674.41	1,798.50	1,938.75	2,140.56

Mortgage

Macro-economic factor	2022	2023	2024	2025	2026
Consumer price index inflation, 2010=100, *AVE	226.87	239.57	253.23	267.15	283.18
Goods and services imports, *LCU millions	2,884,493	3,106,964	3,362,216	3,639,469	3,910,355
Lending rate, %, *EOP	10.36	10.36	10.36	9.64	9.64

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

The following are probability weightings applied in the forward - looking scenario analysis

Upside	Median/Central	Downside
10%	80%	10%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 years.

LCU – local currency unit *AVE - Average *EOP – End of Period

Measurement of ECL
IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified under Stage 1 and has its credit risk continuously monitored by the Group. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired (POCI) financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The key judgements and assumptions adopted by the Group in computing expected loss in line with IFRS 9 are as follows:

(a) Significant increase in credit risk (SICR)
The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

- Significant dip in operating results of the borrowers
- Credit distress necessitated extension to the terms granted
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Significant change in collateral value which is expected to increase risk of default
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans
- A backstop is applied, and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

(b) Definition of default and credit-impaired assets
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria: The borrower is more than 90 days past due on the contractual payments.

Qualitative criteria: The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- Increase in probability that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above has been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months is aligned to Central Bank of Kenya's prudential guidelines.

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Measurement of ECL (Continued)

(c) Measuring ECL – Inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime (Lifetime EAD). For a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur, using a determined credit conversion factor.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment and multiplied together which effectively calculates an ECL.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. Where sufficient data is not available to estimate the 12 month PD transition into lifetime PDs, the Group interpolates its internal 12-month PD to external rating agencies long term proxies to estimate the lifetime PDs.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on expected recovery from collateral forced sale values, adjusted for time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically derived from past recoveries from past defaults of unsecured products or the residual unsecured portions of partly secured exposures.

(d) Forward looking information factor

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact are adjusted to the ECL. The forward-looking economic variables have been adjusted by a management multiplier.

Sensitivity analysis

The most significant assumption affecting the ECL allowance is interest rates given its impact on borrowers' ability to meet their contractual repayments. Other forward-looking consideration not otherwise incorporated within the calculation of ECL, such as inflation, GDP and exchange rates, have been considered but do not have a material impact therefore no adjustment has been to ECL for such factors. This is reviewed and monitored periodically.

Set out below are the changes to the ECL as at 31 December 2022 that would result from reasonably possible changes in this parameter from actual assumptions used in the Group's economic variable assumptions;

	Interest rates			
	2022		2021	
	-5% KShs millions	5% KShs millions	-5% KShs millions	5% KShs millions
Corporate portfolio	65	(65)	65	(65)
Retail portfolio	145	(145)	145	(145)

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Measurement of ECL (Continued)

(e) Impaired financial assets
Impaired financial assets are those which the Group determines it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are classified under stage 3 in the Group's internal credit risk grading system and graded as grade 3 to 5 as required by the regulator. According to the Central Bank of Kenya prudential guidelines, loans and advances overdue by over 90 days are considered non-performing.

(f) Past due but not impaired financial assets
Financial assets where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group. Loans under this category are no more than 90 days overdue.

(g) Loans and advances that are neither past due nor impaired
The Group classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress.

Rankings based on shared risks characteristics
When ECL are measured on a collective basis, the financial instruments are ranked on the basis of shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value (LTV) ratios).

The rankings are reviewed on a regular basis to ensure that each Group is comprised of homogenous exposures.

The Group uses external benchmark information for portfolios with limited historical data. The table below depicts the portfolios for which external benchmark information represents a significant input into measurement of ECL. No collateral is held for these exposures.

	Exposure (million)	External benchmark PD	External benchmark LGD
Cash and bank balances	91,131	Sovereign	S& P ratings
Financial assets held through FVOCI	113,498	Sovereign	S& P ratings
Financial assets held through FVTPL	17,403	Sovereign	S& P ratings
Financial assets held at amortized costs	164,522	Sovereign	S& P ratings
Loans and advances to banks	163,632	Corporate	S& P ratings
Other assets and prepayments	50,664	Corporate	S& P ratings
Off balance sheet	90,156	Corporate	S& P ratings

* Financial guarantees only

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Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality
The Group monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

Class of financial instrument	Financial statement line	Note
Loans and advances to banks at amortised cost	Loans and advances to other banks	Note 22
Loans and advances to customers at amortised cost	Loans and advances to customers	Note 26
Debt investment securities at amortised cost	Financial assets at amortised costs	Note 27
Debt investment securities at FVTOCI	Financial assets at FVOCI	Note 23
Loan commitments and financial guarantee contracts	None	Note 4
Other financial assets	Other financial assets	Note 4

An analysis of the Group's credit risk concentrations per class of financial asset is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Loans and advances at amortised cost	Kenya KShs million	Tanzania KShs million	Uganda KShs million	Rwanda KShs million	South Sudan KShs million	Burundi KShs million	DRC KShs million	Total KShs million
31 December 2022	743,532	35,745	20,610	56,655	4,516	5,562	65,545	932,165
31 December 2021	659,912	22,748	11,998	42,070	1,679	3,158	-	741,565

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

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

The table below analyses the movement of the gross loans during the year.

Gross loans

2022 **Loans and advances to customers**	**Corporate** **KShs million**	**Mortgages** **KShs million**	**Retail** **KShs million**	**Total** **KShs million**
Gross loans and advances to customers	475,886	105,737	350,542	932,165
Of which stage 1 and 2	283,647	91,505	332,867	708,019
Of which stage 3	192,239	14,232	17,675	224,146
Expected credit loss provisions	50,116	3,263	18,106	71,485
Of which stage 1 and 2	3,806	1,511	7,475	12,792
Of which stage 3	46,310	1,752	10,631	58,693
Net loans and advances to customers	425,770	102,474	332,436	860,680
Of which stage 1 and 2	279,841	89,994	325,392	695,227
Of which stage 3	145,929	12,480	7,044	165,453
2021				
Loans and advances to customers				
Gross loans and advances to customers	379,726	83,444	278,395	741,565
Of which stage 1 and 2	274,655	71,761	273,489	619,905
Of which stage 3	105,071	11,683	4,906	121,660
Expected credit loss provisions	47,700	3,485	18,561	69,746
Of which stage 1 and 2	6,514	1,408	8,668	16,590
Of which stage 3	41,186	2,077	9,893	53,156
Net loans and advances to customers	332,026	79,959	259,834	671,819
Of which stage 1 and 2	268,141	70,353	264,821	603,315
Of which stage 3	63,885	9,606	4,987	68,504

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

Total Group	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2022	519,536	100,369	121,660	741,565
Changes in the loss allowance				
– Transfer to stage 1	4,965	(5,216)	251	-
– Transfer to stage 2	(32,759)	35,092	(2,333)	-
– Transfer to stage 3	(6,780)	(12,133)	18,913	-
New financial assets originated or purchased	292,009	66,259	14,252	372,520
Financial assets that have been derecognised	(127,820)	(23,178)	(30,922)	(181,920)
Loans and advances as at 31 December 2022	**649,151**	**161,193**	**121,821**	**932,165**
Loans and advances as at 1 January 2021	497,737	54,505	107,930	660,172
Changes in the loss allowance				
– Transfer to stage 1	6,940	(7,539)	599	-
– Transfer to stage 2	(58,383)	58,140	243	-
– Transfer to stage 3	(23,059)	(3,831)	26,890	-
New financial assets originated or purchased	186,196	18,239	45,892	250,327
Financial assets that have been derecognised	(89,895)	(19,145)	(59,894)	(168,934)
Loans and advances as at 31 December 2021	**519,536**	**100,369**	**121,660**	**741,565**

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

The tables below analyse the movement of the gross loans during the year per class of assets in the year ended 31 December 2021:

Corporate-Mortgage	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2022	**20,245**	**369**	**6,746**	**27,360**
Changes in the loss allowance				
– Transfer to stage 1	1,098	(944)	(154)	-
– Transfer to stage 2	(2,516)	2,051	465	-
– Transfer to stage 3	(391)	(872)	1,263	-
New financial assets originated or purchased	14,002	379	58	14,439
Financial assets that have been derecognised	(3,323)	(28)	(121)	(3,472)
Loans and advances as at 31 December 2022	**29,115**	**955**	**8,257**	**38,327**

Corporate - overdrafts				
Loans and advances as at 1 January 2022	**9,965**	**2,160**	**761**	**12,886**
Changes in the loss allowance				
– Transfer to stage 1	584	(580)	(4)	-
– Transfer to stage 2	(939)	938	1	-
– Transfer to stage 3	(25)	(1,143)	1,168	-
New financial assets originated or purchased	15,069	348	541	15,958
Financial assets that have been derecognised	(1,027)	(956)	(430)	(2,413)
Loans and advances as at 31 December 2022	**23,627**	**767**	**2,037**	**26,431**

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

Corporate - term loans	Stage 1 12-month ECL Kshs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2022	**173,707**	**88,823**	**104,310**	**366,840**
Changes in the loss allowance				
– Transfer to stage 1	3,297	(3,199)	(98)	-
– Transfer to stage 2	(22,233)	25,000	(2,767)	-
– Transfer to stage 3	(2,063)	(7,844)	9,907	-
New financial assets originated or purchased	83,249	61,150	12,300	156,699
Financial assets that have been derecognised	(33,281)	(20,033)	(22,633)	(75,947)
Loans and advances as at 31 December 2022	**202,676**	**143,897**	**101,019**	**447,592**
Retail - mortgage				
Loans and advances as at 1 January 2022	**49,023**	**2,124**	**4,937**	**56,084**
Changes in the loss allowance				
– Transfer to stage 1	944	(706)	(238)	-
– Transfer to stage 2	(2,335)	2,361	(26)	-
– Transfer to stage 3	(708)	(485)	1,193	-
New financial assets originated or purchased	13,599	2,914	963	17,476
Loans and advances as at 31 December 2022	(6,195)	(716)	(1,428)	(8,339)
Loans and advances as at 31 December 2022	**54,328**	**5,492**	**5,401**	**65,221**

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

Retail - overdrafts	**Stage 1 12-month ECL KShs million**	**Stage 2 Lifetime ECL KShs million**	**Stage 3 Lifetime ECL KShs million**	**Total KShs million**
Loans and advances as at 1 January 2022	11,796	876	4,890	17,562
Changes in the loss allowance				
– Transfer to stage 1	318	(309)	(9)	-
– Transfer to stage 2	(640)	696	(56)	-
– Transfer to stage 3	(270)	(79)	349	-
New financial assets originated or purchased	3,934	769	1,989	6,692
Financial assets that have been derecognised	(2,281)	(223)	(2,013)	(4,517)
Loans and advances as at 31 December 2022	**12,857**	**1,730**	**5,150**	**19,737**

Retail - term loans				
Loans and advances as at 1 January 2022	254,800	6,017	16	260,833
Changes in the loss allowance				
– Transfer to stage 1	2,802	(2,051)	(751)	-
– Transfer to stage 2	(4,284)	4,313	(29)	-
– Transfer to stage 3	(3,751)	(1,350)	5,101	-
New financial assets originated or purchased	176,678	2,823	2,060	181,561
Financial assets that have been derecognised	(102,434)	(2,152)	(2,951)	(107,537)
Loans and advances as at 31 December 2022	**323,811**	**7,600**	**3,446**	**334,857**

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

Corporate - mortgage	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 ECL KShs million	Total KShs million
Loans and advances as at 1 January 2021	18,543	3,079	1,719	23,341
Changes in the loss allowance				
– Transfer to stage 1	(393)	(1,186)	1,579	-
– Transfer to stage 2	(1,405)	(819)	2,224	-
– Transfer to stage 3	(1,068)	(579)	1,647	-
New financial assets originated or purchased	6,458	104	(423)	6,139
Financial assets that have been derecognised	(1,890)	(230)	-	(2,120)
Loans and advances as at 31 December 2021	**20,245**	**369**	**6,746**	**27,360**
Corporate - overdrafts				
Loans and advances as at 1 January 2021	15,547	2,108	955	18,610
Changes in the loss allowance				
– Transfer to stage 1	785	(481)	(304)	0
– Transfer to stage 2	(702)	700	2	0
– Transfer to stage 3	(122)	(192)	314	0
New financial assets originated or purchased	2,454	945	159	3,558
Financial assets that have been derecognised	(7,997)	(920)	(365)	(9,282)
Loans and advances as at 31 December 2021	**9,965**	**2,160**	**761**	**12,886**

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

Corporate - term loans	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2021	197,647	36,672	80,370	314,689
Changes in the loss allowance				
– Transfer to stage 1	1,731	(1,649)	(82)	-
– Transfer to stage 2	(51,616)	53,712	(2,096)	-
– Transfer to stage 3	(17,997)	(1,361)	19,358	-
New financial assets originated or purchased	47,337	15,125	44,828	107,290
Financial assets that have been derecognised	(3,395)	(13,676)	(38,068)	(55,139)
Loans and advances as at 31 December 2021	**173,707**	**88,823**	**104,310**	**366,840**
Retail - mortgage				
Loans and advances as at 1 January 2021	46,997	3,373	4,485	54,855
Changes in the loss allowance				
– Transfer to stage 1	2,321	(2,085)	(236)	-
– Transfer to stage 2	(1,195)	1,237	(42)	-
– Transfer to stage 3	(456)	(606)	1,062	-
Loans and advances as at 31 December 2021	7,659	518	294	8,471
Financial assets that have been derecognised	(6,303)	(313)	(626)	(7,242)
Loans and advances as at 31 December 2021	**49,023**	**2,124**	**4,937**	**56,084**

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

Retail - overdrafts	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2021	12,727	1,230	10,892	24,849
Changes in the loss allowance				
– Transfer to stage 1	(16)	(30)	46	-
– Transfer to stage 2	(146)	140	6	-
– Transfer to stage 3	(322)	(129)	451	-
New financial assets originated or purchased	6,568	44	575	7,187
Financial assets that have been derecognised	(7,015)	(379)	(7,080)	(14,474)
Loans and advances as at 31 December 2021	**11,796**	**876**	**4,890**	**17,562**
Retail - term loans				
Loans and advances as at 1 January 2021	195,915	8,043	15,227	219,185
Changes in the loss allowance				
– Transfer to stage 1	2,512	(2,108)	(404)	-
– Transfer to stage 2	(3,319)	3,170	149	-
– Transfer to stage 3	(3,094)	(964)	4,058	-
New financial assets originated or purchased	122,510	1,503	459	124,472
Financial assets that have been derecognised	(59,724)	(3,627)	(19,473)	(82,824)
Loans and advances as at 31 December 2021	**254,800**	**6,017**	**16**	**260,833**

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

The tables below analyses the movement of the loss allowance during the year.

Total Group	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2022	**11,279**	**5,311**	**53,156**	**69,746**
Changes in the loss allowance				
– Transfer to stage 1	331	(333)	2	-
– Transfer to stage 2	(294)	1,238	(944)	-
– Transfer to stage 3	(137)	(161)	298	-
Net remeasurement of loss allowance	(1,933)	611	1,322	
New financial assets originated or purchased	14,643	1,327	3,440	19,410
Financial assets that have been derecognised	(5,239)	(1,582)	(10,850)	(17,671)
Loans and advances as at 31 December 2022	**18,650**	**6,411**	**46,424**	**71,485**
Loss allowance as at 1 January 2021	**14,428**	**5,042**	**45,447**	**64,917**
Changes in the loss allowance				
Loans and advances as at 1 January 2021	386	(103)	(283)	-
– Transfer to stage 2	(206)	202	4	-
– Transfer to stage 3	(116)	(509)	625	-
Net remeasurement of loss allowance	(308)	1,309	7,974	8,975
New financial assets originated or purchased	4,927	1,034	18,156	24,117
Financial assets that have been derecognised	(7,832)	(1,664)	(18,767)	(28,263)
Loss allowance as at 31 December 2021	**11,279**	**5,311**	**53,156**	**69,746**

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

The tables below analyses the movement of the loss allowance during the year per class of assets

Corporate- mortgage	**Stage 1 12-month ECL KShs million**	**Stage 2 Lifetime ECL KShs million**	**Stage 3 Lifetime ECL KShs million**	**Total KShs million**
Loans and advances as at 1 January 2022	**303**	**610**	**1,145**	**2,058**
Changes in the loss allowance				
– Transfer to stage 1	12	(4)	(8)	-
– Transfer to stage 2	(3)	8	(5)	-
– Transfer to stage 3	(3)	(5)	8	-
Net remeasurement of loss allowance	23	21	89	133
New financial assets originated or purchased	109	21	39	169
Financial assets that have been derecognised	(2)	(4)	(507)	(513)
Loans and advances as at 31 December 2022	**439**	**647**	**761**	**1,847**

Corporate- overdrafts				
Loss allowance as at 1 January 2022	**7**	**-**	**51**	**58**
Changes in the loss allowance				
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	144	41	(6)	179
New financial assets originated or purchased	740	54	8	802
Financial assets that have been derecognised	(1)	-	(53)	(54)
Loss allowance as at 31 December 2022	**890**	**95**	**-**	**985**

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

Corporate- term loans	**Stage 1 12- month ECL KShs million**	**Stage 2 Lifetime ECL KShs million**	**Stage 3 Lifetime ECL KShs million**	**Total KShs million**
Loans and advances as at 1 January 2022	**3,508**	**2,999**	**41,135**	**47,642**
Changes in the loss allowance				
– Transfer to stage 1	26	(26)	-	-
– Transfer to stage 2	(23)	909	(886)	-
– Transfer to stage 3	(4)	(26)	30	-
Net remeasurement of loss allowance	(363)	1,289	(769)	157
New financial assets originated or purchased	11,721	526	941	13,188
Financial assets that have been derecognised	(3,030)	(1,366)	(6,505)	(10,901)
Loans and advances as at 31 December 2022	**11,835**	**4,305**	**33,946**	**50,086**

Retail-mortgage				
Loss allowance as at 1 January 2022	**408**	**87**	**932**	**1,427**
Changes in the loss allowance				
– Transfer to stage 1	(21)	2	19	-
– Transfer to stage 2	(4)	(7)	11	-
– Transfer to stage 3	(1)	(2)	3	-
Net remeasurement of loss allowance	23	45	104	172
New financial assets originated or purchased	22	19	48	89
Financial assets that have been derecognised	(7)	(2)	(187)	(196)
Loss allowance as at 31 December 2021	**420**	**142**	**930**	**1,492**

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

Retail- overdrafts	**Stage 1 12-month ECL KShs million**	**Stage 2 Lifetime ECL KShs million**	**Stage 3 Lifetime ECL KShs million**	**Total KShs million**
Loans and advances as at 1 January 2022	**1,555**	**707**	**1,893**	**4,155**
Changes in the loss allowance				
– Transfer to stage 1	163	(160)	(3)	-
– Transfer to stage 2	(147)	191	(44)	-
– Transfer to stage 3	(34)	(31)	65	-
Net remeasurement of loss allowance	(518)	140	180	(198)
New financial assets originated or purchased	191	225	77	493
Financial assets that have been derecognised	(259)	(124)	(1,368)	(1,751)
Loans and advances as at 31 December 2022	**951**	**948**	**800**	**2,699**

Retail- term loans				
Loss allowance as at 1 January 2022	**5,498**	**908**	**8,000**	**14,406**
Changes in the loss allowance				
– Transfer to stage 1	149	(144)	(5)	-
– Transfer to stage 2	(116)	136	(20)	-
– Transfer to stage 3	(95)	(98)	193	-
Net remeasurement of loss allowance	(1,241)	(113)	1,642	288
New financial assets originated or purchased	1,683	229	1,545	3,457
Financial assets that have been derecognised	(1,471)	(91)	(2,226)	(3,788)
Loss allowance as at 31 December 2022	**4,407**	**827**	**9,129**	**14,363**

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

Corporate- mortgage	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2021	**237**	**135**	**766**	**1,138**
Changes in the loss allowance				
– Transfer to stage 1	33	(58)	25	-
– Transfer to stage 2	(36)	14	22	-
– Transfer to stage 3	(12)	(6)	18	-
Net remeasurement of loss allowance	(34)	525	308	799
New financial assets originated or purchased	123	5	6	134
Financial assets that have been derecognised	(8)	(5)	-	(13)
Loans and advances as at 31 December 2021	**303**	**610**	**1,145**	**2,058**
Corporate- overdrafts				
Loss allowance as at 1 January 2021	**10**	**14**	**230**	**254**
Changes in the loss allowance				
– Transfer to stage 1	100	2	(102)	-
– Transfer to stage 2	-	1	(1)	-
– Transfer to stage 3	(1)	-	1	-
Net remeasurement of loss allowance	(99)	(9)	(132)	(240)
New financial assets originated or purchased	13	1	58	72
Financial assets that have been derecognised	(16)	(9)	(3)	(28)
Loss allowance as at 31 December 2021	**7**	**-**	**51**	**58**

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

Corporate- term loans	**Stage 1 12-month ECL KShs million**	**Stage 2 Lifetime ECL KShs million**	**Stage 3 Lifetime ECL KShs million**	**Total KShs million**
Loans and advances as at 1 January 2021	**927**	**2,640**	**32,517**	**36,084**
Changes in the loss allowance				
– Transfer to stage 1	82	(7)	(75)	-
– Transfer to stage 2	(80)	82	(2)	-
– Transfer to stage 3	(20)	(376)	396	-
Net remeasurement of loss allowance	220	788	6,426	7,434
New financial assets originated or purchased	2,309	504	7,343	10,156
Financial assets that have been derecognised	70	(632)	(5,470)	(6,032)
Loans and advances as at 31 December 2021	**3,508**	**2,999**	**41,135**	**47,642**
Retail- mortgage				
Loss allowance as at 1 January 2021	**288**	**101**	**1,151**	**1,540**
Changes in the loss allowance				
– Transfer to stage 1	77	8	(85)	-
– Transfer to stage 2	(7)	19	(12)	-
– Transfer to stage 3	(1)	(23)	24	-
Net remeasurement of loss allowance	(52)	(35)	(48)	(135)
New financial assets originated or purchased	119	19	72	210
Financial assets that have been derecognised	(16)	(2)	(170)	(188)
Loss allowance as at 31 December 2021	**408**	**87**	**932**	**1,427**

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

Retail - overdrafts	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2021	**1,217**	**437**	**1,131**	**2,785**
Changes in the loss allowance				
– Transfer to stage 1	26	-	(26)	-
– Transfer to stage 2	(16)	16	-	-
– Transfer to stage 3	(44)	(72)	116	-
Net remeasurement of loss allowance	37	11	78	126
New financial assets originated or purchased	1,273	736	7,176	9,185
Financial assets that have been derecognised	(938)	(421)	(6,582)	(7,941)
Loans and advances as at 31 December 2021	**1,555**	**707**	**1,893**	**4,155**
Retail- term loans				
Loss allowance as at 1 January 2021	**9,605**	**1,351**	**12,519**	**23,475**
Changes in the loss allowance				
– Transfer to stage 1	68	(48)	(20)	-
– Transfer to stage 2	(67)	70	(3)	-
– Transfer to stage 3	(38)	(32)	70	-
Net remeasurement of loss allowance	(380)	29	1,342	991
New financial assets originated or purchased	3,234	133	634	4,001
Financial assets that have been derecognised	(6,924)	(595)	(6,542)	(14,061)
Loss allowance as at 31 December 2021	**5,498**	**908**	**8,000**	**14,406**

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

Other Financial Assets and cash

Other financial assets	Cash & Central Bank Balances KShs million	Loans to Banks KShs million	Financial assets FVTOCI KShs million	Financial assets FVTPL KShs million	Financial assets Amortized cost KShs million	Other Assets KShs million	Total KShs million
Gross carrying amount as at 1 January 2022	**54,218**	**26,642**	**139,704**	**5,462**	**131,127**	**17,394**	**374,547**
Changes in the loss allowance							-
– Transfer to stage 1	-	-	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-	-	-
New financial assets originated or purchased	12,583	143,493	-	16,566	38,545	20,724	231,911
Financial assets that have been derecognised	(4,519)	(6,503)	(26,206)	(4,625)	(5,150)	-	(47,003)
Gross carrying amount as at 31 December 2022	**62,282**	**163,632**	**113,498**	**17,403**	**164,522**	**38,118**	**559,455**

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

Credit quality (Continued)

Other Financial Assets and cash

Other financial assets	Cash & Central Bank Balances KShs million	Loans to Banks KShs million	Financial assets FVTOCI KShs million	Financial assets FVTPL KShs million	Financial assets Amortized cost KShs million	Other Assets KShs million	Total KShs million
Gross carrying amount as at 1 January 2021	64,608	23,706	94,284	5,143	111,357	36,352	335,450
Changes in the loss allowance							
– Transfer to stage 1	-	-	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-	-	-
New financial assets originated or purchased	7,004	2,936	66,600	2,550	42,407	-	121,497
Financial assets that have been derecognised	(17,394)	-	(21,180)	(2,231)	(22,637)	(18,958)	(82,400)
Gross carrying amount as at 31 December 2021	**54,218**	**26,642**	**139,704**	**5,462**	**131,127**	**17,394**	**374,547**

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value.

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(a) Credit risk (Continued)

Credit quality (Continued)

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value (see note 1 Presentation of allowance for ECL).

The Group does not hold any lease receivables.

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is KShs. 10,997 million at 31 December 2022 (2021: KShs. 9,169 million). As discussed above in the significant increase in credit risk section, under the Group's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

	Year ended 2022		Year ended 2021	
Loans and advances to customers	**Gross carrying amount KShs million**	**Loss allowance KShs million**	**Gross carrying amount KShs million**	**Loss allowance KShs million**
0-29 days	519,031	10,900	525,325	14,761
30-59 days	109,222	694	54,510	611
60-89 days	142,708	1,198	38,880	1,218
90-180 days	25,854	3,648	21,106	11,314
More than 181 days	135,350	55,045	101,744	41,842
Total	**932,165**	**71,485**	**741,565**	**69,746**

Modified financial assets

As a result of the Group's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition.

Financial assets (with loss allowance based on lifetime ECL) modified during the period	**Year ended 2022 KShs million**	**Year ended 2021 KShs million**
Gross carrying amount before modification	69,783	743
Loss allowance before modification	(4,547)	10
Net amortised cost before modification	65,236	753
Net modification gain/(loss)	-	-
Net amortised cost after modification	**65,236**	**753**

Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL	**Year ended 2022 KShs million**	**Year ended 2021 KShs million**
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL basis after modification	**-**	**749**

Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The collateral presented relates to instruments that are measured at FVTOCI, amortised cost and at FVTPL.

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(a) Credit risk (Continued)

Credit quality (Continued)

Collateral held as security and other credit enhancements (Continued)

The Group also holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

The Group did not hold any financial instrument for which no loss allowance is recognised because of collateral at 31 December 2022. There was no change in the Group's collateral policy during the year.

Derivatives and loans and advances to banks (reverse sale and repurchase agreements and securities borrowing)

The Group does not hold any derivatives.

Mortgage lending

The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals. The tables below show the exposures from mortgage loans by ranges of LTV.

	Year ended 2022		Year ended 2021	
Mortgage lending LTV ratio	Gross carrying amount KShs million	Loss allowance KShs million	Gross carrying KShs million	Loss allowance KShs million
Less than 50%	36,362	703	36,307	1,223
51-70%	15,878	107	13,088	1,331
71-90%	23,514	226	9,383	1,016
91-100%	5,295	236	19,033	113
More than 100%	14,683	1,070	26,564	1,735
Total	**95,732**	**2,342**	**104,375**	**5,418**

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(a) Credit risk (Continued)

Credit quality (Continued)

Mortgage lending – continued

Credit impaired – mortgage lending LTV ratio	Year ended 2022 Gross carrying amount KShs million	Year ended 2022 Loss allowance KShs million	Year ended 2021 Gross carrying amount KShs million	Year ended 2021 Loss allowance KShs million
Less than 50%	2,561	111	3,737	418
51-70%	2,391	109	3,106	684
71-90%	1,650	150	3,469	904
91-100%	1,347	183	1,364	60
More than 100%	5,899	804	6,523	1,270
Total	**13,848**	**1,357**	**18,199**	**3,336**

Personal lending
The Group's personal lending portfolio consists of unsecured loans and credit cards.

Corporate lending
The Group requests collateral and guarantees for corporate lending. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason the valuation of collateral held against corporate lending is not routinely updated. The valuation of such collateral is updated if the loan is put on "watch-list" and is therefore monitored more closely.

For credit-impaired loans the Group obtains appraisals of collateral to inform its credit risk management actions. At 31 December 2022 the net carrying amount of loans and advances to corporate customers was KShs 407 million (2021 – KShs 338million) and the value of the respective collateral was KShs 2,201million (2021 – KShs 2,751million).

Investment securities
The Group holds investment securities measured at amortised cost with a carrying amount of KShs 165 million (2021: 131 million) and at FVTOCI with a carrying amount of KShs 113 million (2021: 140 million). The investment securities held by the Group are sovereign bonds and corporate bonds, which are not collateralised, as well as asset backed securities, which are secured by financial assets.

Lease receivables
The Group does not have any lease receivables.

Assets obtained by taking possession of collateral
The Group obtained financial assets during the year by taking possession of collateral held as security against loans and advances. The Group's policy is to realise collateral on a timely basis. The Group does not use non-cash collateral for its operations.

(i) Past due but not impaired loans and advances
Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of stage of collection of amounts owed to the Group. As at 31 December, the ageing analysis of past due but not impaired loans and advances was as follows:

(ii) Past due but not impaired loans and advances
Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of stage of collection of amounts owed to the Group. As at 31 December, the ageing analysis of past due but not impaired loans and advances was as follows:

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(a) Credit risk (Continued)

Credit quality (Continued)

	Group		Company	
	2022 KShs million	2021 KShs million	2022 KShs million	2021 KShs million
Less than 60 days	133,550	84,609	-	-
Between 60 and 120 days	23,152	19,630	-	-
Greater than 120 days	21,045	10,237	-	-
	177,747	**114,476**	**-**	**-**

Credit related commitment risk
The Group makes available to its customers guarantees which may require the Group to make payments on their behalf and enters into commitments to extend lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

(i) Write-off policy

The Group writes off a loan balance as and when the Credit Committee 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 will not be sufficient to pay back the entire exposure.

(ii) Collateral on loans and advances

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property and other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

(iii) Concentration of credit risk

The Group focuses on the diversification of its lending portfolio by setting industry sector limits based on forecasts spanning a one-year horizon to ensure that its performance is not negatively impacted by a large sectoral exposure default. Additionally, regular stress tests are performed on the portfolio to ensure that the Group holds sufficient capital to withstand any loss arising from significant exposure to a sector, single customer and group of closely related customers.

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(a) Credit risk (Continued)

Credit quality (Continued)

(iii) Concentration of credit risk (Continued)

Overall, it is the policy of the Group to limit credit risk exposures and concentrations within the constraints of its capital base. An analysis of concentrations of credit risk at the reporting date is shown below:

	Group		Company	
	2022 KShs million	2021 KShs million	2022 KShs million	2021 KShs million
Personal/household	367,249	263,721	-	-
Real Estate	134,742	124,937	-	-
Manufacturing	120,185	91,682	-	-
Building and construction	67,157	55,713	-	-
Trade	90,467	82,459	-	-
Financial services	11,610	11,256	-	-
Transport and communication	54,500	42,319	-	-
Tourism, restaurants and hotels	35,647	35,061	-	-
Energy and water	23,516	12,592	-	-
Agriculture	25,875	21,244	-	-
Mining and quarrying	1,217	581	-	-
	932,165	**741,565**	**-**	**-**

(iv) Fair value of collateral held

The Group holds collateral against loans and advances to customers in the form of cash, residential, commercial and industrial property; fixed assets such as plant and machinery; marketable securities; bank guarantees and letters of credit.

The Group also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral. Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back tested at least annually.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2022 and 31 December 2021. An estimate of fair values of collaterals held against loans and advances to customers at the end of the year was as follows:

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

Financial Risk Management (Continued)

(a) Credit risk (Continued)

Credit quality (Continued)

(iv) *Fair value of collateral held (Continued)*

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Impaired loans	163,000	128,604	-	-
Performing loans	2,897,449	2,648,157	-	-
	3,060,449	**2,776,761**	**-**	**-**

(b) Liquidity risk

Liquidity risk is the risk that the Group, though solvent either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due or can secure them only at excessive costs.

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's treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

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

To address any liquidity risk negative gaps, the group has an Assets & Liabilities Committee that directs mobilization of deposits and where needed supports big tickets through aggressive pricing, halts or significantly curtails asset growth. The Group uses the interbank borrowing or disposes government securities to address short -term negative gaps.

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

	2022	**2021**
At close of the year	40.9%	39.3%
Average for the year	38.8%	39.5%
Maximum for the year	40.9%	41.3%
Minimum for the year	36.9%	37.3%

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(b) Liquidity risk (Continued)

The tables below summarize the Group' and Company's liquidity risk as at 31 December 2022 and 31 December 2021, categorized into relevant maturity groupings based on the remaining contractual maturities.

Group At 31 December 2022	Up to 1 month KShs million	1 - 3 months KShs million	3 - 12 months KShs million	1 - 5 years KShs million	Over 5 years KShs million	Total KShs million
Cash and balances with Central Banks	80,177	4,651	1,626	1,710	2,967	91,131
Loans and advances to Banks	159,190	2,200	-	-	1,344	162,734
Financial assets at FVTPL	419	4,708	4,526	3,520	4,231	17,404
Financial Assets at amortised cost	2,748	1,660	3,933	24,102	132,079	164,522
Financial Assets at fair value through OCI	113,672	10,662	47,130	73,920	95,459	340,843
Loans and advances to customers	397,829	71,160	165,899	526,184	498,213	1,659,285
Investment in equity	54	-	28	27	1,077	1,186
Investment property	-	-	-	-	12,601	12,601
Other assets	26,862	20,146	3,757	-	-	50,765
Total financial assets	**780,951**	**115,187**	**226,899**	**629,463**	**747,971**	**2,500,471**
Deposits from banks	86,746	4,624	545	873	-	92,788
Deposits from customers	1,297,396	136,168	227,708	105,775	631,602	2,398,649
Retirement benefits obligation	-	-	-	-	1,007	1,007
Borrowings	-	3,119	3,111	20,655	36,725	63,610
Lease liabilities	696	923	2,918	7,181	5,837	17,555
Other liabilities	34,152	380	9,714	-	1,164	45,410
Total financial liabilities	**1,418,990**	**145,214**	**243,996**	**134,484**	**676,335**	**2,619,019**
Net statement of financial exposure	**(638,039)**	**(30,027)**	**(17,097)**	**494,979**	**71,636**	**(118,548)**

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(b) Liquidity risk (Continued)

Company At 31 December 2022	Up to 1 month KShs million	1 - 3 months KShs million	3 - 12 months KShs million	1 - 5 years KShs million	Over 5 years KShs million	Total KShs million
Cash and balances with Central Banks	712	-	-	-	-	712
Loans and advances to Banks	-	-	-	-	-	-
Balances due from related companies	-	-	-	-	-	-
Financial assets at FVTPL	-	-	-	-	-	-
Financial Assets at amortised cost	-	-	-	-	-	-
Financial Assets at fair value through OCI	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Investment in equity	-	-	-	-	-	-
Investment property	-	-	-	-	-	-
Other assets	62	-	-	-	-	62
Total financial assets	**774**	**-**	**-**	**-**	**-**	**774**
Deposits from banks	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-
Balances due to related companies	2,360	-	-	-	-	2,360
Borrowings	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-
Other liabilities	766	-	-	-	-	768
Total financial liabilities	**3,126**	**-**	**-**	**-**	**-**	**3,126**
Net statement of financial exposure	**(2,352)**	**-**	**-**	**-**	**-**	**(2,352)**

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(b) Liquidity risk (Continued)

Group At 31 December 2021	Up to 1 month Kshs million	1 - 3 months Kshs million	3 - 12 months Kshs million	1 - 5 years Kshs million	Over 5 years Kshs million	Total Kshs million
Cash and balances with Central Banks	71,612	-	-	-	-	71,612
Loans and advances to Banks	24,253	-	1,247	-	1,257	26,757
Financial assets at FVTPL	309	775	684	1,283	4,709	7,760
Financial Assets at amortised cost	626	320	11,099	26,003	170,640	208,688
Financial Assets at fair value through OCI	5,136	10,007	24,726	27,446	137,552	204,867
Loans and advances to customers	57,745	15,679	84,870	279,608	501,677	939,579
Investment in equity	-	-	-	-	-	-
Investment property	-	-	-	-	-	-
Other assets	27,329	-	-	-	-	27,329
Total financial assets	**187,010**	**26,781**	**122,626**	**334,340**	**815,835**	**1,486,592**
Deposits from banks	36,347	9,893	1,537	94	-	47,871
Deposits from customers	676,895	90,578	63,475	7,443	263	838,654
Retirement benefits obligation	-	-	458	-	-	458
Borrowings	20,550	136	849	19,787	1,988	43,310
Lease liabilities	-	-	-	-	6,681	6,681
Other liabilities	30,208	-	-	-	-	30,208
Total financial liabilities	**764,000**	**100,607**	**66,319**	**27,324**	**8,932**	**967,182**
Net statement of financial exposure	**(576,990)**	**(73,826)**	**56,307**	**307,016**	**806,903**	**519,410**

The amounts in the tables above have been compiled based on undiscounted cash flows, which include estimated interest payments.

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(b) Liquidity risk (Continued)

Company At 31 December 2021	Up to 1 month KShs million	1 - 3 months KShs million	3 - 12 months KShs million	1 - 5 years KShs million	Over 5 years KShs million	Total KShs million
Cash and balances with Central Banks	517	-	-	-	-	517
Loans and advances to Banks	-	-	-	-	-	-
Balances due from related companies	1,800	-	-	-	-	1,800
Financial assets at FVTPL	-	-	-	-	-	-
Financial Assets at amortised cost	-	-	-	-	-	-
Financial Assets at fair value through OCI	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Investment in equity	-	-	-	-	-	-
Investment property	-	-	-	-	-	-
Other assets	4	-	-	-	-	4
Total financial assets	**2,321**	**-**	**-**	**-**	**-**	**2,321**
Deposits from banks	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-
Retirement benefits obligation	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-
Other liabilities	606	-	-	-	-	606
Total financial liabilities	**606**	**-**	**-**	**-**	**-**	**606**
Net statement of financial exposure	**1,715**	**-**	**-**	**-**	**-**	**1,715**

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(i) Current risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily, and hedging strategies used to ensure that positions are maintained within the established limits. Foreign exchange risk arises from our non-trading asset and liability positions, denominated in currencies other than the functional currency of the respective entity.

Transactions in foreign currency are recorded at the rate in effect at the date of the transaction. The Group translates monetary assets and liabilities denominated in foreign currencies at the rate of exchange in effect at the reporting date. The Group records all gains or losses on changes in currency exchange rates in profit or loss.

The table below summarizes the foreign currency exposure as at 31 December 2022 and 31 December 2021:

	Group		Company	
	2022 KShs million	2021 KShs million	2022 KShs million	2021 KShs million
Assets in foreign currencies	269,825	202,788	-	-
Liabilities in foreign currencies	(279,705)	(183,808)	-	-
Net foreign currency exposure at the end of the year	**(9,880)**	**18,980**	**-**	**-**

31 December 2022:	USD KShs million	GBP KShs million	EURO KShs million	OTHER KShs million	Total KShs million
Assets					
Cash and bank balances	41,910	495	2,690	2,083	47,178
Loans and advances to customers	185,175	53	1,465	664	187,357
Placements with Banks	7,254	182	1,437	186	9,059
Other assets	23,785	7	348	14	24,154
At 31 December 2022	**258,124**	**737**	**5,940**	**2,947**	**267,748**
Liabilities					
Deposits from banks	8,474	6	52	1,060	9,592
Deposits from customers	180,329	699	5,236	10,336	196,600
Other liabilities	63,610	-	-	-	63,610
At 31 December 2022	**5,388**	**22**	**199**	**2,169**	**7,778**
Net statement of financial position exposure	**257,801**	**727**	**5,487**	**13,565**	**277,580**

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

31 December 2021:	USD KShs million	GBP KShs million	EURO KShs million	OTHER KShs million	Total KShs million
Assets					
Cash and bank balances	20,045	588	2,997	320	23,950
Loans and advances to customers	149,123	4	1,489	-	150,616
Placements with banks	9,656	351	1,647	222	11,876
Other assets	16,008	1	158	179	16,346
At 31 December 2021	**194,832**	**944**	**6,291**	**721**	**202,788**
Liabilities					
Deposits from banks	5,804	10	140	4	5,958
Deposits from customers	129,268	632	4,751	322	134,973
Other liabilities	45,705	25	163	(3,016)	42,877
At 31 December 2021	180,777	667	5,054	(2,690)	183,808
Net statement of financial position exposure	**14,055**	**277**	**1,237**	**3,411**	**18,980**

The following table demonstrates the sensitivity to a reasonably possible change in the below mentioned exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

The group manages the currency risk through cross currency swaps, deposit mobilization and also long term borrowings and onward lending to customers to mitigate any gaps. The Group also uses the interbank borrowings or lending to manage the currency gap position.

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

KShs 'Million'	At 31 December 2022			At 31 December 2021		
	Currency Carrying Amount	10% Depreciation	10% Appreciation	Currency Carrying Amount	10% Depreciation	10% Appreciation
Assets						
USD	258,123	(25,812)	25,812	194,831	(19,483)	19,483
GBP	737	(74)	74	944	(94)	94
Euro	5,940	(594)	594	6,291	(629)	629
Other	2,947	(295)	295	722	(72)	72
		(26,775)	**26,775**		**(20,278)**	**20,278**
Liabilities						
USD	257,801	25,780	(25,780)	180,777	18,078	(18,078)
GBP	727	73	(73)	667	67	(67)
Euro	5,486	549	(549)	5,054	505	(505)
Others	13,565	1,356	(1,356)	(2,690)	269	(269)
		27,758	**(27,758)**		**18,919**	**(18,919)**
Increase/(decrease)		983	(983)		(1,359)	1,359
Tax charge at 30%		295	(295)		(408)	408
Effect on net profit		688	(688)		(951)	951
As a percentage of net profit		**1.68%**	**(1.68%)**		**(2.78%)**	**2.78%**

At 31 December 2022 if the shilling had weakened/strengthened by 10% against the major trading currencies, with all other variables held constant, net profit would have been KShs. 688 million (2021: KShs. 1,329 million) lower/higher.

(c) Interest rate risk

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may decrease as a result of such changes but may increase losses in the event that unexpected movement arises.

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

The Group closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position. Assets and Liabilities Committee monitors compliance with the set interest rate gaps.

To manage interest rate risk the group has a robust Assets and Liabilities Committee which reviews daily cash management, monitors daily liquidity limits of loan to deposit ratio and interbank borrowing. The Group also performs stress testing of liquid assets and has a contingency funding plan to ensure severe liquidity gaps are adequately managed. The table below shows interest rate sensitivity position of the Group as at 31 December based on the earlier of maturity or re-pricing dates. Items not recognized on the statement of financial position do not pose any significant interest rate risk to the Group.

Group As at 31 December 2022:	Weighted interest rates	Up to 1 month Kshs million	1 - 3 months Kshs million	3 - 12 months Kshs million	1 - 5 years Kshs million	Over 5 years Kshs million	Non-interest bearing Kshs million	Total Kshs million
Cash and balances with Central Banks	0.00%	-	-	-	-	-	91,131	91,131
Loans and advances to banks	1.70%	32,533	2,109	-	-	1,344	126,918	162,904
Financial assets at FVOCI	11.50%	64	805	4,670	28,273	78,591	1,096	113,499
Financial assets at FVTPL	11.50%	400	4,494	4,347	3,386	4,039	739	17,405
Investment in equity	0.00%	630	-	-	-	-	447	1,077
Other assets and prepayments	0.00%	6,453	19,127	3,725	-	-	21,358	50,663
Loans and advances to customers	10.10%	81,554	99,359	61,491	237,332	319,821	63,711	863,268
Investment property	0.00%	-	-	-	-	-	12,601	12,601
Financial assets at amortised cost	11.50%	1,940	1,611	3,933	24,035	132,079	924	164,522
Total assets		**123,574**	**127,505**	**78,166**	**293,026**	**535,874**	**318,925**	**1,477,070**
Deposits from banks	4.70%	78,942	2,239	2,729	833	13,246	- 5,202	92,787
Deposits from customers	2.80%	606,543	59,902	75,931	4,858	114,317	273,866	1,135,417
Retirement benefits obligation	0.00%	-	-	-	-	-	1,007	1,007
Lease liability	0.00%	45	34	240	803	3,581	1,170	5,873
Payables and accrued expenses	0.00%	14,617	199	9,714	-	-	12,965	37,495
Borrowings	7.90%	4	96	1,166	16,229	45,739	375	63,609
Total liabilities and equity		**700,151**	**62,470**	**89,780**	**22,723**	**176,883**	**284,181**	**1,336,188**
Interest rate sensitivity gap		**(576,577)**	**65,035**	**(11,614)**	**270,303**	**358,991**	**34,744**	**140,882**
Off-Balance Sheet assets and capital		**11,923**	**37,313**	**90,104**	**41,370**	**1,160**	**-**	**181,870**

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

Group As at 31 December 2021:	Weighted interest rates	Up to 1 month Kshs million	1 - 3 months Kshs million	3 - 12 months Kshs million	1 - 5 years Kshs million	Over 5 years Kshs million	Non-interest bearing Kshs million	Total Kshs million
Cash and balances with Central Banks	0.00%	-	-	-	-	-	71,612	71,612
Loans and advances to banks	2.80%	24,253	-	1,234	-	1,155	-	26,642
Financial assets at FVTPL	11.10%	309	775	639	982	2,757	-	5,462
Financial assets at FVOCI	11.10%	5,136	9,918	23,113	21,001	80,536	-	139,704
Financial assets at amortised cost	11.10%	626	320	10,375	19,897	99,909	-	131,127
Loans and advances to customers	10.20%	57,745	15,679	79,696	217,843	304,518	-	675,481
Other assets and prepayments	0.00%	-	-	-	-	-	27,329	27,329
Total assets		**88,069**	**26,692**	**115,057**	**259,723**	**488,875**	**98,941**	**1,077,357**
Deposits from banks	2.50%	36,347	9,893	1,537	94	-	-	47,871
Deposits from customers	5.10%	676,895	90,578	62,457	6,980	231	-	837,141
Retirement benefits obligation	0.00%	-	-	-	-	-	458	458
Borrowings	4.20%	24,893	136	829	10,062	1,642	-	37,562
Lease liability	0.00%	-	-	-	-	-	6,681	6,681
Payables and accrued expenses	0.00%	-	-	-	-	-	30,208	30,208
Total liabilities and equity		**738,135**	**100,607**	**64,823**	**17,136**	**1,873**	**37,347**	**959,921**
Interest rate sensitivity gap		**(650,066)**	**(73,915)**	**50,234**	**242,587**	**487,002**	**61,594**	**117,436**
Off-Balance Sheet assets and capital commitments		**6,229**	**19,494**	**47,075**	**21,614**	**606**	**-**	**95,018**

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

Company As at 31 December 2022:	Weighted interest rates	Up to 1 month KShs million	1 - 3 months KShs million	3 - 12 months KShs million	1 - 5 years KShs million	Over 5 years KShs million	Non-interest bearing KShs million	Total KShs million
Cash and balances with Central Banks	0.00%	-	-	-	-	-	712	-
Loans and advances to banks	0.00%	-	-	-	-	-	-	-
Financial assets at FVOCI	0.00%	-	-	-	-	-	-	-
Amounts due from related companies	0.00%	-	-	-	-	-	-	-
Other assets and prepayments	0.00%	-	-	-	-	-	62	-
Total assets		**-**	**-**	**-**	**-**	**-**	**774**	**-**
Deposits from banks	0.00%	-	-	-	-	-	-	-
Deposits from customers	0.00%	-	-	-	-	-	-	-
Payables to related parties	0.00%	-	-	-	-	-	2,270	-
Payables and accrued expenses	0.00%	-	-	-	-	-	766	-
Borrowings	0.00%	-	-	-	-	-	-	-
Total liabilities and equity		**-**	**-**	**-**	**-**	**-**	**3,036**	**-**
Interest rate sensitivity gap		**-**	**-**	**-**	**-**	**-**	**(2,262)**	**-**

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

Company As at 31 December 2021:	**Weighted interest rates**	**Up to 1 month KShs million**	**1 - 3 months KShs million**	**3 - 12 months KShs million**	**1 - 5 years KShs million**	**Over 5 years KShs million**	**Non-interest bearing KShs million**	**Total KShs million**
Cash and balances with Central Banks	0.00%	-	-	-	-	-	517	517
Loans and advances to banks	0.00%	-	-	-	-	-	-	-
Financial assets at FVOCI	0.00%	-	-	-	-	-	-	-
Amounts due from related companies	0.00%	-	-	-	-	-	1,800	1,800
Other assets and prepayments	0.00%	-	-	-	-	-	4	4
Total assets		**-**	**-**	**-**	**-**	**-**	**2,321**	**2,321**
Deposits from banks	0.00%	-	-	-	-	-	-	-
Deposits from customers	0.00%	-	-	-	-	-	-	-
Payables to related parties	0.00%	-	-	-	-	-	-	-
Payables and accrued expenses	0.00%	-	-	-	-	-	-	-
Borrowings	0.00%	-	-	-	-	-	606	606
Total liabilities and equity		-	-	-	-	-	606	606
Interest rate sensitivity gap		**-**	**-**	**-**	**-**	**-**	**1,715**	**1,715**

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

An analysis of the Group's sensitivity to an increase or decrease in market interest rates assuming no asymmetrical movement in yield curves and a constant financial position is as follows on profit or loss (balances in KShs millions):

	2022 Carrying amount	1% Increase	1% Decrease	2021 Carrying amount	1% Increase	1% Decrease
Cash and balances with Central Banks	91,131	(2,465)	2,465	71,612	(716)	716
Loans and advances to banks	163,632	(1,172)	1,172	26,642	(266)	266
Financial assets at FVTPL	-	-	-	5,462	(55)	55
Financial assets at FVOCI	113,498	(2,302)	2,302	139,704	(1,397)	1,397
Other assets	39,142	(597)	597	27,329	(273)	273
Loans and advances to customers (Net)	863,626	(13,974)	13,974	675,481	(6,755)	6,755
Financial assets at amortised cost	164,522	(1,636)	1,636	131,127	(1,311)	1,311
	1,435,551	**(22,146)**	**22,146**	**1,077,357**	**(10,773)**	**10,773**
Liabilities & Equity						
Deposits from banks	92,787	(1,502)	1,502	47,817	(478)	478
Deposits from customers	1,135,444	(17,660)	17,660	837,141	(8,371)	8,371
Retirement benefits obligations	1,007	(6)	6	458	(5)	5
Other liabilities and accrued expenses	44,989	(439)	439	30,208	(302)	302
Borrowings	63,610	(726)	726	37,561	(376)	376
	1,337,837	**(20,333)**	**20,333**	**953,185**	**(9,532)**	**9,532**
Net interest income Increase/(decrease)		(1,813)	1,813		(1,241)	1,241
Tax Charge @ 30%		582	(582)		405	(405)
Impact on profit after tax		**(1,654)**	**1,654**		**(944)**	**944**

Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Bank Treasury is responsible for the development of detailed risk management policies and for day-to-day implementation of those policies.

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(iii) Price risk

The Group is exposed to equity securities price risk because of investments in Kenya Mortgage Refinance Company shares. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity and debt securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Directors.

Value at risk

The Group applies a 'value at risk' (VAR) methodology to its trading and non-trading portfolios to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. Interest rate risk in the non-trading book is also measured using interest rate repricing gap analysis.

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Group might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VAR estimate.

The VAR model assumes a certain 'holding period' until positions can be closed (10 days). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. The Group's assessment of past movements is based on data for the past five years. The Group applies these historical changes in rates, prices, indices, etc. directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The VaR is calculated as per the below standard parameters:

- Confidence level - 99%
- Holding Period - 10 Days
- Historical Data - 5 years

The VAR is reported to the Board as part of the ICAAP process. The VAR limits will be established for all trading portfolio operations and allocated to Business Units. Average daily VAR for KCB Kenya was KShs. 1,225 million (2021: KShs. 1,296 million). The quality of the VAR model is continuously monitored by back-testing the VAR results.

12 months to 31 Dec 2022

Stress VaR KShs million	Average	High	Low
Interest rate risk	1,222	1,327	1,147
Foreign exchange risk	34	149	5
Total VaR	**1,225**	**1,326**	**1,166**

12 months to 31 Dec 2021

KShs million	Average	High	Low
Interest rate risk	1,297	1,583	1,133
Foreign exchange risk	8	21	0
Total VaR	**1,296**	**1,583**	**1,132**

(d) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Treasury and Risk Functions include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions.

The results of the stress tests are reviewed by senior management in each business unit and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

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For the Year Ended 31 December 2022

Notes (Continued)

4. Financial Risk Management (Continued

(e) Off balance sheet items

i. Loan commitments
The dates of the contractual amounts of the Group's off-balance sheet financial instruments that it commits to extend credit to customers and other facilities (Note 45) are summarised in the table below.

ii. Off balance sheet financial instruments
Off balance sheet letters of credit and guarantees (Note 46) are also included in the table below, based on the earliest contractual maturity date.

iii. Operating lease commitments
Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases.

iv. Capital commitments
Capital commitments for the acquisition of buildings and equipment (Note 45) are summarised in the table below

At 31 December 2022	No later than 1 year KShs million	1-5 years KShs million	Over 5 years KShs million	Total KShs million
Loan commitments	31,049	-	-	31,049
Off balance sheet financial instruments	72,798	21,614	606	95,018
Operating lease commitments	1,150	5,268	3,403	9,821
Capital commitments	2,682	-	-	2,682
Total	**107,679**	**26,882**	**4,009**	**138,570**
At 31 December 2021				
Loan commitments	28,819	-	-	28,819
Off balance sheet financial instruments	76,475	22,116	606	99,197
Operating lease commitments	811	3,572	1,029	5,412
Capital commitments	2,682	-	-	2,682
Total	**108,787**	**25,688**	**1,635**	**136,110**

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For the Year Ended 31 December 2022

Notes (Continued)

5. Fair Value of Financial Instrument

(a) Accounting classification and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2022 Group	FVTPL KShs million	FVOCI KShs million	At amortised cost KShs million	Total carrying amount KShs million	Level 1 KShs million	Level 2 KShs million	Level 3 KShs million	Total KShs million
Assets								
Financial assets								
Cash and balances with Central Bank	-	-	91,131	91,131	91,131	-	-	91,131
Loans and advances to banks	-	-	163,632	163,632	-	163,632	-	163,632
Financial assets at amortised cost	-	-	164,522	164,522	164,522	-	-	164,522
Financial Assets at fair value through other comprehensive income	-	113,498	-	113,498	113,498	-	-	113,498
Investment in equity	-	-	1,077	1,077	-	1,077	-	1,077
Loans and advances to customers at amortised cost	-	-	860,680	860,680	-	860,680	-	860,680
Loans and advances to customers at FVTPL	1,482	-	-	1,482	-	1,482	-	1,482
Other assets	-	-	49,738	49,738	-	49,738	-	49,738
Total financial assets	**1,482**	**113,498**	**1,330,780**	**1,445,760**	**369,151**	**1,076,609**	**-**	**1,445,760**
Deposits from banks	-	-	92,787	92,787	-	92,787	-	92,787
Deposits from customers	-	-	1,135,417	1,135,417	-	1,135,417	-	1,135,417
Payables and accrued expenses	-	-	44,989	44,989	-	44,989	-	44,989
Lease liability	-	-	5,873	5,873	-	5,873	-	5,873
Long term debt	-	-	63,610	63,610	-	63,610	-	63,610
Total financial liabilities	**-**	**-**	**1,342,676**	**1,342,676**	**-**	**1,342,676**	**-**	**1,342,676**

Financial Statements

For the Year Ended 31 December 2022

Notes (Continued)

5. Fair Value of Financial Instrument (Continued)

(a) Accounting classification and fair values (Continued)

	Carrying amount				Fair value			
2021 Group	**FVTOCI KShs million**	**FVTPL KShs million**	**At amortised cost KShs million**	**Total KShs million**	**Level 1 KShs million**	**Level 2 KShs million**	**Level 3 KShs million**	**Total KShs million**
Assets								
Financial assets								
Cash and balances with Central Banks	-	-	71,612	71,612	-	71,612	-	71,612
Due from other banks	-	-	26,642	26,642	-	26,642	-	26,642
Financial assets at amortized cost	-	-	131,127	131,127	-	131,127	-	131,127
Financial assets at FVOCI	139,704	-	-	139,704	139,704	-	-	139,704
Financial assets at FVPL		5,462	-	5,462	-	5,462	-	5,462
Loans and advances to customers at amortised cost	-	-	671,819	671,819	-	671,819	-	671,819
Loans and advances to customers at FVTPL	-	3,662	-	3,662	-	3,662	-	3,662
Other assets and prepayments	-	-	27,329	27,329	-	27,329	-	27,329
Total financial assets	**139,704**	**9,124**	**928,529**	**1,077,357**	**139,704**	**937,653**	**-**	**1,077,357**
Liabilities								
Due to other banks	-	-	47,817	47,817	-	47,817	-	47,817
Deposits from customers	-	-	837,141	837,141	-	837,141	-	837,141
Payables and accrued expenses	-	-	30,208	30,208	-	30,208	-	30,208
Long term debt	-	-	37,561	37,561	-	37,561	-	37,561
Total financial liabilities	**-**	**-**	**952,727**	**952,727**	**-**	**952,727**	**-**	**952,727**

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

5. Fair Value of Financial Instrument (Continued)

(a) Accounting classification and fair values (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

Investment securities with observable market prices including equity securities are fair valued using that information. Investment securities that do not have observable market data are fair valued either using discounted cash flow method or quoted market prices for securities with similar yield characteristics. The table above includes KShs 295 million (2021: KShs 276 million) of securities in both carrying amount and fair value columns that were measured at cost and for which disclosure at fair value was not provided because their fair value was not considered to be reliably measurable.

Loans and advances to customers are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances are on floating rates and re-price within 12 months, hence their fair value approximates their carrying amounts.

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. Estimated fair value of fixed interest-bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar maturities and interest rates. A substantial proportion of deposits mature within 12 months and hence the fair value approximates their carrying amounts.

Cash and bank balances are measured at amortized cost and their fair value approximates their carrying amount.

(b) Valuation hierarchy

The table below presents the Group's assets that are measured at fair value the end of the year.

Financial Assets Financial assets	Fair value as at		Fair value hierarchy	Valuation technique (s) and key inputs	Significant unobservable inputs
	31 December 2022 KShs million	31 December 2021 KShs million			
At FVTPL	17,403	5,462	Level 1	Quoted bid prices in an active market	N/A
AT FVOCI	113,498	139,704	Level 1	Quoted bid prices in an active market	N/A
Loans and advances at FVPL	2,588	3,662	Level 2	Valuation based on future operations of an entity	Discounted cashflows
Total assets	**133,489**	**148,828**			

The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

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For the Year Ended 31 December 2022

Notes (Continued)

6. Management of capital

Regulatory capital – Kenya

The Central Bank of Kenya sets and monitors capital requirements for all banks.

The objective of the Central Bank of Kenya is to ensure that a bank maintains a level of capital which:

- is adequate to protect its depositors and creditors;
- is commensurate with the risks associated with its activities and profile
- promotes public confidence in the Group.

In implementing current capital requirements, the Central Bank of Kenya requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets. Banks are expected to assess the Credit risk, Market risk and the Operational risk of the risk weighted assets to derive the ratios. The Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

The Central Bank of Kenya requires a bank to maintain at all times:

- hold the minimum level of regulatory capital of KShs. 1 billion.
- Total risk weighted assets, plus risk weighted off-balance sheet assets at above the required minimum of 10.5%.
- Maintain a ratio of total regulatory capital; to
  - a core capital of not less than 8% of its total deposit liabilities
  - a total capital of not less than 14.5% of its total risk weighted assets, plus risk weighted off-balance sheet items.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital. This includes ordinary share capital, share premium, retained earnings and after deduction of investment in subsidiaries, goodwill, other intangible assets and other regulatory adjustments relating to items that are included in equity which are treated differently for capital adequacy purposes.
- Tier 2 capital. This includes 25% of revaluation reserves of property, subordinated debt not exceeding 50% of core capital, collective impairment allowances and any other approved reserves.

The regulatory capital position for the Group's banking subsidiaries was as follows:

Regulatory capital - KCB Bank Kenya Limited

Core capital (Tier 1):	**2022 KShs million**	**2021 KShs million**
Ordinary share capital	53,986	53,986
Retained earnings	42,463	60,678
Deferred Tax	(10,485)	(7,007)
Total core capital	**85,964**	**107,657**
Supplementary Capital (Tier 2):	34,786	28,967
Total regulatory capital	**120,750**	**136,624**
Risk weighted assets	**792,142**	**676,511**
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	15.2%	20.2%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	**10.9%**	**15.9%**
The minimum capital ratios, as per the Central Bank of Kenya regulations, are as follows:		
Total core capital expressed as a percentage of total risk-weighted assets	14.5%	14.5%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	**10.5%**	**10.5%**

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

6. Management of capital (Continued)

	2022	2021
Regulatory capital – NBK		
NBK had the following capital adequacy ratios		
Core capital (Tier 1)		
Tier I (Minimum required 10.5%)	12.2%	12.7%
Tier I + Tier II (Minimum required 14.50%)	13.5%	14.3%
Regulatory capital – Tanzania		
KCB Bank Tanzania had the following capital adequacy ratios:-		
Core capital (Tier 1)		
Tier I (Minimum required 12.5%)	15.9%	16.6%
Tier I + Tier II (Minimum required 14.5%)	15.9%	16.6%
Regulatory capital – Rwanda		
BPR Rwanda had the following capital adequacy ratios:-		
Core capital (Tier 1)		
Tier I (Minimum required 12.5%)	19.3%	22.2%
Tier I + Tier II (Minimum required 15%)	19.4%	21.3%
Regulatory capital – South Sudan		
KCB Bank South Sudan had the following capital adequacy ratios:-		
Core capital (Tier 1)		
Tier I (Minimum required 8%)	32.0%	51.0%
Tier I + Tier II (Minimum required 12%)	38.0%	61.0%
Regulatory capital – Burundi		
KCB Bank Burundi had the following capital adequacy ratios:-		
Core capital (Tier 1)		
Tier I (Minimum required 12.5%)	26.3%	30.7%
Tier I + Tier II (Minimum required 14.5%)	35.0%	39.5%
Regulatory capital – Uganda		
KCB Bank Uganda had the following capital adequacy ratios:-		
Core capital (Tier 1)		
Tier I (Minimum required 12.5%)	18.2%	15.0%
Tier I + Tier II (Minimum required 14.5%)	18.9%	15.7%
Regulatory capital – DR Congo		
TMB had the following capital adequacy ratios:-		
Core capital (Tier 1)		
Tier I (Minimum required 7.5%)	9.6%	-
Tier I + Tier II (Minimum required 10%)	12.1%	-

KCB Group Plc will ensure that the capital adequacy of its subsidiaries meet the requirements of home and host regulators as required by cap 488 of the Banking Act.

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For the Year Ended 31 December 2022

Notes (Continued)

6. Management of capital (Continued)

The Group was in compliance with all statutory capital requirements as at end of the year. In addition, the Group has an Internal Capital Adequacy Assessment Process (ICAAP) policy to guide in determining its capital planning and formulating its risk appetite process. Overall, the purpose of the ICAAP document is to provide an informative description of the methodology and procedures that the Group uses to assess and mitigate its risks and to make sure that adequate capital is kept to support its risks beyond the core minimum requirements.

It delineates the process through which the Group assesses the extent to which it holds sufficient capital in order to duly support its business activities. Specifically, through the ICAAP, the Group assesses its forecast capital supply and demand relative to its regulatory and internal capital targets, under various scenarios. The Group's capital plan is defined every year during the budgeting and strategic planning exercise while financial year risk appetite limits are set by the Board. Exposures are monitored on a quarterly basis against those limits and reported to the Board Credit and Risk Committees. Stress testing is a risk management exercise that forms an integral part of the ICAAP. As part of the Group's ICAAP, forecasts are made over a five-year horizon, taking into account the Basel Pillar I and II stresses.

The ICAAP provides for an assessment of the Pillar I risk types (i.e., credit, operational, market risks) and Pillar II risk types (i.e. concentration of risk, liquidity risk, interest rate risk, strategic risks). These assessments are conducted with a view to understanding the sensitivity of the key assumptions of the capital plan to the realisation of possible stress scenarios and in order to evaluate how the Group can continue to maintain adequate capital under such scenarios. The overriding aim of the stress testing framework for the Group is to ensure that risk management exercises are firmly embedded in the organisation's overall governance culture. This helps to bolster the observance of regulatory requirements with regard to risk management, while contributing to the competitive positioning of the Group.

7. Operating segments

An operating segment is a section of the Group that focus on distinct business activities and is regularly reviewed by the management in terms of performance and resource allocation. The Group's management identify the specific segments based on the internal reporting periodically to the executive committee which is the chief operating decision maker (CODM). The segmentation is dependent on the customer's turnover and thus the current segments include corporate, retail, Treasury, and mortgages. The focus of these segments is as detailed below: -

- Retail banking – incorporating banking services such as customer current accounts, savings, and fixed deposits to individuals. Retail lending mainly consumer loans and mortgages-based lending.
- Corporate banking – incorporating banking services such as current accounts, fixed deposits, overdrafts, loans, and other credit facilities both in local and foreign currencies for corporate customers.
- Treasury – operates the Group's funds management activities. Other Group operations comprise of trade finance and forex business. The Group also participates in investments in Treasury Bills and Bonds from the Central Banks.

The Group does not have any one major customer contributing to more than 10% in revenue, loans, or deposits. There have been no changes in the reportable segments in the year, nor any intersegment transfers.

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For the Year Ended 31 December 2022

Notes (Continued)

7 . Operating segments (Continued)

The table below analyses the breakdown of segmental assets, liabilities, income, and expenses.

Profit or Loss For the year ended 31-Dec-22	Corporate banking KShs million	Retail banking KShs million	Treasury KShs million	Mortgages KShs million	Other KShs million	Total KShs million
Interest income	46,384	50,042	35,577	-	-	132,003
Interest expense	(12,413)	(12,800)	(2,597)	-	(3,288)	(31,098)
Net interest income	33,971	37,242	32,980	-	(3,288)	100,905
Net fees and commission	4,592	7,847	-	-	-	12,439
Other income	-	3,806	11,062	-	45	14,913
Depreciation and amortization	-	-	-	-	(6,615)	(6,615)
Impairment	(7,690)	(4,141)	-	-	-	(11,831)
Operating expenses	(5,733)	(26,016)	(286)	-	(20,716)	(52,751)
Profit before monetary items	25,140	18,738	43,756	-	(30,574)	57,060
Gain on monetary items	-	-	-	-	271	271
Profit before tax	25,140	18,738	43,756	-	(30,303)	57,331
Tax expense	(7,233)	(5,391)	(12,589)	-	8,718	(16,494)
Profit after tax	**17,907**	**13,347**	**31,167**	**-**	**(21,585)**	**40,837**

31-Dec-21	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million
Interest income	39,738	46,868	21,900	986	5,334	114,826
Interest expense	(14,770)	(6,373)	(918)	(45)	(2,357)	(24,463)
Net interest income	24,968	40,495	20,982	941	2,977	90,363
Net fees and commission	10	3,804	6,547	73	-	10,434
Other income	518	2,332	1,477	-	6,157	10,484
Depreciation and amortization	(116)	(804)	(9)	-	(5,099)	(6,028)
Impairment	(8,793)	(3,987)	-	(118)	(1,726)	(14,624)
Operating expenses	(4,410)	(20,012)	(220)	(28)	(18,360)	(43,030)
Profit before monetary items	12,177	21,828	28,777	868	(16,051)	47,599
Gain on monetary items	-	-	-	-	216	216
Profit before tax	12,177	21,828	28,777	868	(15,835)	47,815
Tax expense	(3,474)	(6,228)	(8,210)	(248)	4,518	(13,642)
Profit after tax	**8,703**	**15,600**	**20,567**	**620**	**(11,317)**	**34,173**

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For the Year Ended 31 December 2022

Notes (Continued)

7. Operating segments (Continued)

Financial position As at 31 December 2022	Corporate banking KShs million	Retail banking KShs million	Treasury KShs million	Mortgages KShs million	Other KShs million	Total KShs million
Short term funds	-	29,290	458,327	-	62,569	550,186
Loans and advances	406,823	456,445	-	-	-	863,268
Other assets and prepayments	-	-	-	-	140,576	140,576
Total assets	**406,823**	**485,735**	**458,327**	**-**	**203,145**	**1,554,030**
Customer deposits	558,988	576,429	-	-	-	1,135,417
Borrowed funds	-	-	-	-	63,610	63,610
Payables and accrued expenses	-	-	-	-	148,726	148,726
Shareholders' funds	-	-	-	-	206,277	206,277
Total liabilities and shareholders' funds	**558,988**	**576,429**	**-**	**-**	**418,613**	**1,554,030**
31 December 2021						
Short term funds	23,783	15,401	211,784	-	123,579	374,547
Loans and advances	322,307	257,916	-	95,258	-	675,481
Other assets and prepayments	9,396	-	-	-	80,248	89,644
Total assets	**355,486**	**273,317**	**211,784**	**95,258**	**203,827**	**1,139,672**
Customer deposits	431,416	382,148	8,945	3,516	11,116	837,141
Borrowed funds	-	-	-	-	37,561	37,561
Payables and accrued expenses	169	506	-	-	90,788	91,463
Shareholders' funds	-	-	-	-	173,507	173,507
Total liabilities and shareholders' funds	**431,585**	**382,654**	**8,945**	**3,516**	**312,972**	**1,139,672**

Major Customers

The Group does not have major customers contributing to 10% or more of the Group's income.

Geographical information

Six of the Group companies, KCB Bank Tanzania Limited, KCB South Sudan Limited, KCB Bank Uganda Limited, BPR Bank Rwanda Plc, KCB Bank Burundi Limited, and Trust Merchant Bank, SA (DRC) operate outside the domestic financial market. The following table analyses the regional segments in which the group operates.

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For the Year Ended 31 December 2022

Notes (Continued)

7. Operating segments (Continued)

Geographical information

Income Statement

For the year ended 31 December 2022	Kenya KShs million	Tanzania KShs million	South Sudan KShs million	Uganda KShs million	Rwanda KShs million	Burundi KShs million	DRC KShs million	Elimination KShs million	Total KShs million
Interest income	111,563	4,977	371	2,713	9,269	877	2,233	-	132,003
Interest expense	(26,097)	(1,776)	(51)	(852)	(2,378)	(79)	135	-	(31,098)
Net interest income	85,466	3,201	320	1,861	6,891	798	2,368	-	100,905
Net fees and commission income	9,474	339	597	466	1,039	588	(64)	-	12,439
Other income	12,527	474	758	524	464	147	19	-	14,913
Impairment	(10,174)	(487)	(50)	(188)	(76)	14	(870)	-	(11,831)
Depreciation and amortization	(4,595)	(275)	(50)	(260)	(1,321)	(101)	(13)	-	(6,615)
Operating expenses	(42,776)	(1,683)	(604)	(1,609)	(3,952)	(622)	(1,505)	-	(52,751)
Profit before tax and monetary loss	49,922	1,569	971	794	3,045	824	(65)	-	57,060
Loss /(Gain)on monetary position	-	-	271	-	-	-	-	-	271
Profit before income tax	49,922	1,569	1,242	794	3,045	824	(65)	-	57,331
Tax	(14,485)	(482)	(304)	249	(1,022)	(224)	(226)	-	(16,494)
Profit after tax	**35,437**	**1,087**	**938**	**1,043**	**2,023**	**600**	**(291)**	**-**	**40,837**
For the year ended									
31 December 2021									
Interest income	103,008	3,820	162	1,964	5,224	788	-	(140)	114,826
Interest expense	(20,980)	(1,220)	(79)	(689)	(1,571)	(64)	-	140	(24,463)
Net interest income	82,028	2,600	83	1,275	3,653	724	-	-	90,363
Net fees and commission income	8,471	231	469	350	479	434	-	-	10,434
Other income	24,229	375	762	411	374	121	-	(15,788)	10,484
Impairment	(12,618)	(610)	(29)	(162)	(253)	(42)	-	-	(13,714)
Depreciation and amortization	(4,937)	(242)	(75)	(193)	(485)	(96)	-	-	(6,028)
Operating expenses	(38,157)	(1,283)	(431)	(1,312)	(2,207)	(550)	-	-	(43,940)
Profit before tax and monetary loss	59,016	1,071	779	369	1,561	591	-	(15,788)	47,599
Loss /(Gain)on monetary position	-	-	216	-	-	-	-	-	216
Profit before income tax	59,016	1,071	995	369	1,561	591	-	(15,788)	47,815
Tax	(12,577)	(349)	(79)	(99)	(465)	(73)	-	-	(13,642)
Profit after tax	**46,439**	**722**	**916**	**270**	**1,096**	**518**	**-**	**(15,788)**	**34,173**

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For the Year Ended 31 December 2022

Notes (Continued)

7 . Operating segments (Continued)

Geographical information

Statement of financial position

For the year ended 31 December 2022	Kenya KShs million	Tanzania KShs million	South Sudan KShs million	Uganda KShs million	Rwanda KShs million	Burundi KShs million	DRC KShs million	Elimination KShs million	Total KShs million
Cash and short-term funds	332,613	22,002	12,195	13,685	28,743	10,289	138,132	(7,473)	550,186
Loans and advances	685,081	34,767	4,465	20,080	54,978	5,502	58,512	(117)	863,268
Other assets	211,712	1,658	(383)	1,514	8,801	419	13,581	(96,726)	140,576
Total assets	**1,229,406**	**58,427**	**16,277**	**35,279**	**92,522**	**16,210**	**210,225**	**(104,316)**	**1,554,030**
Customer deposits	805,131	36,093	11,975	27,286	55,573	12,296	187,179	(116)	1,135,417
Borrowed funds	55,191	1,120	-	310	6,989	-	-	-	63,610
Other liabilities	114,575	13,672	1,429	1,919	15,588	633	4,248	(3,338)	148,726
Shareholders' funds	254,509	7,542	2,873	5,764	14,372	3,281	18,798	(100,862)	206,277
Total liabilities and shareholders' funds	**1,229,406**	**58,427**	**16,277**	**35,279**	**92,522**	**16,210**	**210,225**	**(104,316)**	**1,554,030**

For the year ended 31 December 2021	Kenya KShs million	Tanzania KShs million	South Sudan KShs million	Uganda KShs million	Rwanda KShs million	Burundi KShs million	Elimination KShs million	Total KShs million
Cash and short-term funds	298,471	16,616	12,078	10,399	28,526	8,457	-	374,547
Loans and advances	596,327	22,238	1,639	11,708	40,471	3,098	-	675,481
Other assets	170,391	78	2,143	2,531	6,388	484	(92,371)	89,644
Total assets	**1,065,189**	**38,932**	**15,860**	**24,638**	**75,385**	**12,039**	**(92,371)**	**1,139,672**
Customer deposits	730,583	23,239	8,136	19,997	46,100	9,086	-	837,141
Borrowed funds	33,621	493	-	497	2,950	-	-	37,561
Other liabilities	65,247	9,614	4,435	719	13,308	444	(2,304)	91,463
Shareholders' funds	235,738	5,586	3,289	3,425	13,027	2,509	(90,067)	173,507
Total liabilities and shareholders' funds	**1,065,189**	**38,932**	**15,860**	**24,638**	**75,385**	**12,039**	**(92,371)**	**1,139,672**

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For the Year Ended 31 December 2022

Notes (Continued)

8. Interest income and interest expense

		Group		Company	
		2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
(a)	**Interest income**				
	Interest on loans and advances	98,426	86,642	19	17
	Financial instruments at FVOCI	32,749	26,467	-	-
	Other investments at amortised cost	112	68	-	-
	Interest on placements and bank balances	716	1,649	-	140
		132,003	**114,826**	**19**	**157**
(b)	**Interest expense**				
	Interest on deposits	25,213	20,495	-	-
	Interest on borrowed funds	5,415	3,448	-	-
	Interest on lease liabilities	470	520	-	-
		31,098	**24,463**	**-**	**-**
	Net interest income	**100,905**	**90,363**	**19**	**157**

9. Fees and commission income/expense

		Group 2022	Group 2021	Company 2022	Company 2021
(a)	**Fees and commission income**				
	Retail and corporate fee income	3,504	3,093	-	32
	Commission income	11,754	8,701	-	-
		15,258	**11,794**	**-**	**32**
(b)	**Fees and commission expense**	(2,819)	(1,360)	-	-
Net fees and commission		**12,439**	**10,434**	**-**	**32**

10. Net foreign exchange gain

	Group 2022	Group 2021	Company 2022	Company 2021
Foreign currency dealings	11,079	6,547	14	52
	11,079	**6,547**	**14**	**52**

11. (a) Dividend income

	Group 2022	Group 2021	Company 2022	Company 2021
Dividend income	**-**	**-**	**32,824**	**15,688**

11. (b) Other operating income

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Rental income	344	339	12	8
Profit on disposal of property and equipment	(7)	20	-	-
Income on disposal of government securities	-	774	-	-
Miscellaneous income	3,452	157	1,400	1,146
	3,789	**1,290**	**1,412**	**1,154**

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For the Year Ended 31 December 2022

Notes (Continued)

12. Allowances for expected credit losses

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Losses on financial assets				
Non-performing loans and advances (Stage 3)	40,699	32,363	-	-
Performing loans and advances (Stage 1 and 2)	(2,095)	1,095	-	-
Bad debts recovered during the year	(28,304)	(19,460)	-	-
	10,300	**13,998**	**-**	**-**

13. Net gains/(losses) on financial assets at fair value through profit or loss

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Fair value loss/(gain) on loan notes	1,531	(284)	-	-
	1,531	**(284)**	**-**	**-**

14. Staff costs

Salaries and wages	24,738	20,711	1,194	992
Medical expenses	1,713	1,489	3	36
Pension costs – defined benefit scheme	443	221	-	-
Pension costs – defined contribution scheme	1,505	1,394	13	10
Other employee expenses	2,023	1,255	-	6
	30,422	**25,070**	**1,210**	**1,044**

*Other employee costs relate to staff insurance, health and safety programs, recognition schemes, restructuring costs, recruitment, and other incidental costs.

The average number of employees of the Group during the year ended 31 December 2022 was 9,194 (2021: 8,538). The average number of employees of the Company during the year ended 31 December 2022 was 10 (2021: 10)

15. Depreciation and amortisation

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Depreciation of property and equipment (Note 29)	2,835	2,442	16	14
Amortisation of intangible assets (Note 32)	2,625	2,143	2	2
Amortisation of right-of-use asset (Note 31)	1,155	1,443	-	-
	6,615	**6,028**	**18**	**16**

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For the Year Ended 31 December 2022

Notes (Continued)

16. Other operating expenses

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Depositor's protection fund premiums	1,339	1,157	-	-
Marketing, events and sponsorship	2,594	1,957	36	35
Project expenses, Repairs & Maintenance, rent and utilities	1,720	1,463	19	15
Equipment costs, Maintenance, repairs and leases	2,294	2,001	29	14
Communication costs-Data line, Telephone	988	743	3	2
Professional and outsourced service costs	3,947	3,551	359	326
Software related costs	4,051	3,259	1	-
Other costs	5,396	2,821	472	102
	22,329	**16,952**	**919**	**494**

The Group also leases computer equipment and point of sale machines for between one to three years. These leases are short-term or low valued and the Group has elected not to recognize the right-of-use assets and liabilities as exempted by the standard.

Other costs related to utilities payments, card services and corporate social responsibility.

17. Profit before income tax

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Profit before tax is arrived at after charging/(crediting):				
Depreciation	2,835	2,442	16	14
Amortization of intangible assets	2,625	2,143	2	2
Amortization of right of use asset	1,155	1,443	-	-
Directors' emoluments –salary emoluments	568	598	514	525
Auditors' remuneration	89	82	6	6
Profit/(loss) on disposal of property and equipment	(7)	20	-	-

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For the Year Ended 31 December 2022

Notes (Continued)

18. Gain/ (loss) on monetary position

Gain / Loss in monetary position is as a result of the South Sudan economy being declared a hyperinflationary economy in 2016. The financial statements for KCB Bank South Sudan Limited have been adjusted for hyperinflation which resulted in a gain on monetary position of KShs.271 million (2021: KShs 216 million)

2022	At 1 January 2022 KShs million	Net change in monetary items KShs million	At 31 December 2022 KShs million
Monetary Items			
Cash and balances with Bank of South Sudan	11,217	80	11,297
Investment in government securities	-	-	-
Placements and balances with other banking institutions	983	(124)	859
Amounts due from related companies	58	12	70
Loans and advances to customers	1,640	2,825	4,465
Other assets	27	1,224	1,251
Customer deposits	(8,079)	(3,896)	(11,975)
Balances due to other banks	(3)	3	-
Tax payable	(72)	120	48
Other liabilities	(622)	(2,811)	(3,433)
Amounts due to related companies	(2,592)	2,268	(323)
Net monetary assets	**2,558**	**(299)**	**2,258**
Expressed in purchasing power at 31 Dec 2022	(2,342)	354	(1,987)
Gain on net monetary position	**216**	**55**	**271**

2021			
Cash and balances with Bank of South Sudan	13,388	(2,171)	11,217
Investment in government securities	-	-	-
Placements and balances with other banking institutions	656	327	983
Amounts due from related companies	122	(64)	58
Loans and advances to customers	922	718	1,640
Other assets	40	(13)	27
Customer deposits	(9,160)	1,081	(8,079)
Balances due to other banks	(1)	(2)	(3)
Tax payable	(44)	(28)	(72)
Other liabilities	(821)	199	(622)
Amounts due to related companies	(2,721)	129	(2,592)
Net monetary assets	2,381	176	2,557
Expressed in purchasing power at 31 Dec 2021	(2,251)	(90)	(2,341)
Gain on net monetary position	130	86	216

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For the Year Ended 31 December 2022

Notes (Continued)

19. Current income tax

GROUP	2022 KShs million	2021 KShs million
Income tax expense:		
Charge to profit or loss for the year	19,057	17,994
Prior year tax over/(under) provision	(413)	3
	18,644	**17,997**
Deferred tax (credit) / charge:		
Deferred tax (credit) (Note 34)	(2,570)	(4,346)
Deferred tax charge - Prior year overprovision	525	(5)
	(542)	**(4,351)**
Hyperinflation adjustment	(105)	(3)
	16,494	**13,642**

Reconciliation of effective tax:		
Accounting profit before tax	**57, 331**	**47,815**
Tax calculated using applicable tax rates based on respective income tax laws	17,199	18,586
Effects of non-taxable income	(3,737)	(5,962)
Effects of non-allowable expenses	3,638	1,023
Effect of Hyperinflation adjustment	(105)	(4)
Prior year under provision in current tax	(413)	3
Deferred income tax asset previously not recognised	(613)	-
Prior year over-provision of deferred income tax	525	(4)
	16,494	**13,642**

(b) Statement of financial position-Group	2022 KShs million	2021 KShs million
At start of year	(5,644)	426
Current income tax expense	(19,057)	(17,993)
Prior year under/(over) provision	413	(4)
Total income taxes paid	23,968	11,939
Effects of hyperinflation adjustment	105	(12)
Translation differences	551	-
At end of year	**336**	**(5,644)**
Comprising:		
Tax recoverable	336	-
Tax payable	-	(5,644)
	336	**(5,644)**

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For the Year Ended 31 December 2022

Notes (Continued)

19. Current income tax (Continued)

	2022 KShs million	2021 KShs million
COMPANY		
Income tax expense:		
Charge to profit or loss for the year	34	25
Prior year under (over) provision	-	(3)
	34	**22**
Deferred income tax (credit) / charge:		
Deferred income tax (credit) (Note 34)	(116)	(3)
	(82)	**19**
Reconciliation of effective tax:		
Accounting profit before income tax	**32,122**	**15,529**
Tax calculated using applicable tax rates based on respective income tax laws	9,637	4,659
Effects of non-taxable income	(9,847)	(4,707)
Effects of non-allowable expenses	128	70
Effects of change in tax rate	-	-
Prior year under provision in current tax	-	(3)
Prior year over provision in deferred tax	-	-
	(82)	**19**

Statement of financial position-Company	2022 KShs million	2021 KShs million
Company		
At start of year	93	25
Prior year under provision	-	3
Tax paid during the year	31	90
Tax charge for the year	(34)	(25)
At end of year	**90**	**93**
Comprising:		
Tax recoverable	90	93
Tax payable	-	-
	90	**93**

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For the Year Ended 31 December 2022

Notes (Continued)

20. Earnings per share

Basic and diluted earnings per share is calculated on the profit attributable to ordinary shareholders of KShs 40,847 million (2021 – 34,092 million) and on the weighted average number of ordinary shares during the year of 3,213 million (2021 – 3,213 million shares).

	Group		Company	
	2022 KShs million	2021 KShs million	2022 KShs million	2021 KShs million
Basic earnings per share	12.71	10.61	10.02	4.83
Diluted earnings per share	**12.71**	**10.61**	**10.02**	**4.83**

21. Cash and bank balances

Cash on hand	29,290	17,835	712	517
Balances with Central Banks :				
- Cash reserve ratio	45,156	41,171	-	-
- Other current accounts	16,685	12,606	-	-
	91,131	**71,612**	**712**	**517**

Cash held with Central Banks represent cash ratio and other non-interest earning current accounts and is based on the value of deposits as adjusted for Central Banks' requirements. Mandatory cash reserve ratio is not available for use in the Group's day-to-day operations.

22. Loans and advances to other banks

	Group		Company	
	2022 KShs million	2021 KShs million	2022 KShs million	2021 KShs million
Balances in nostro accounts*	27,930	13,200	-	-
Placements with other banks	135,702	13,442	-	-
	163,632	**26,642**	**-**	**-**

The Group participates in the inter-bank market for the generation of revenue. Regularly, the counterparties are assessed for credit-worthiness in line with the Group credit policies. The weighted average effective interest rate on balances due from other banks at 31 December 2022 was 5.3% (2021 :5.1%).

23. Financial assets at fair value through other comprehensive income

	Group		Company	
	2022 KShs million	2021 KShs million	2022 KShs million	2021 KShs million
Unquoted equity investments	2,120	10	-	-
Treasury bonds	111,378	139,694	-	-
	113,498	**139,704**	**-**	**-**

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For the Year Ended 31 December 2022

Notes (Continued)

24. Investments accounted for using equity method

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
At start of year	402	600	-	-
Addition /(Refunds)	630	(238)	-	-
Share of profit	45	40	-	-
	1,077	**402**	**-**	**-**

The Bank has a 20% shareholding in Kenya Mortgage Finance Company. Summarized financial information for the associate have not been presented as the associate is immaterial to the Group. The additions include share held by a subsidiary in SWIFT.

25. Other assets and prepayments

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Other receivables	34,068	16,499	-	-
Prepayments	11,623	9,935	62	4
Items in the course of collection	4,047	895	-	-
	49,738	**27,329**	**62**	**4**

Other receivables are current and non-interest bearing and are generally between 30 to 90 days terms.

The clearing house balance consists of items in transit to/from other banks through the Central Banks of various countries' clearing system. These items generally clear by end of the next business day.

26. Loans and advances to customers

The summary of loans and advances is as follows:

	2022 KShs million	**2021 KShs million**
Loans and advances at amortised cost	860,680	671,819
Loans and advances at fair value	2,588	3,662
	863,268	**675,481**

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For the Year Ended 31 December 2022

Notes (Continued)

26. Loans and advances to customers (Continued)

Loans and advances to customers at amortised cost

	2022			2021		
CORPORATE	**Gross KShs million**	**Credit loss allowance KShs million**	**Carrying Amount KShs million**	**Gross KShs million**	**Credit loss allowance KShs million**	**Carrying Amount KShs million**
Mortgage	38,327	(1,847)	36,480	40,274	(3,257)	37,017
Overdrafts	26,431	(985)	25,446	18,561	(1,097)	17,464
Term loans	447,592	(50,086)	397,506	313,173	(48,048)	265,125
	512,350	**(52,918)**	**459,432**	**372,008**	**(52,402)**	**319,606**
RETAIL						
Mortgage	65,221	(1,492)	63,729	59,583	(1,342)	58,241
Overdrafts	19,737	(2,699)	17,038	15,406	(3,184)	12,222
Term loans	334,857	(14,376)	320,481	294,568	(12,818)	281,750
	419,815	**(18,567)**	**401,248**	**369,557**	**(17,344)**	**352,213**
	932,165	**(71,485)**	**860,680**	**741,565**	**(69,746)**	**671,819**

2022 Loans and advances to customers	**Corporate KShs million**	**Mortgages KShs million**	**Retail KShs million**	**Total KShs million**
Stage 3				
At start of year	40,242	2,844	11,773	54,859
Allowance made during the year (Note 12)	34,464	781	7,890	43,135
Allowance recovered/unrequired during the year (Note 12)	(13,260)	(2,225)	(12,819)	(28,304)
Write downs/write offs during the year	(7,519)	(688)	(2,790)	(10,997)
Effects of currency translation (Note 12)	(2,436)	-	-	(2,436)
At end of year	51,491	712	4,054	56,257
Stage 1 & 2				
At start of year	7,458	641	6,788	14,887
Allowance made during the year (Note 12)	(1,379)	(1,312)	687	(2,004)
Effects of currency translation (Note 12)	(91)	-	-	(91)
At end of year	5,988	(671)	7,475	12,792
Total	57,479	41	11,529	71,485

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Notes (Continued)

26. Loans and advances to customers (Continued)

2021 **Loans and advances to customers**	**Corporate** **KShs million**	**Mortgages** **KShs million**	**Retail** **KShs million**	**Total** **KShs million**
Stage 3				
At start of year	29,302	1,874	19,949	51,125
Allowance made during the year (Note 12)	21,888	1,416	9,058	32,362
Allowance recovered/unrequired during the year (Note 12)	(9,472)	(397)	(9,591)	(19,460)
Write downs/write offs during the year	(1,476)	(49)	(7,643)	(9,168)
At end of year	**40,242**	**2,844**	**11,773**	**54,859**
Stage 1 & 2				
At start of year	6,506	1,242	6,044	13,792
Allowance made during the year (Note 12)	952	(601)	744	1,095
Effects of movements in exchanges rates (Note 12)	-	-	-	-
At end of year	**7,458**	**641**	**6,788**	**14,887**
Total	**47,700**	**3,485**	**18,561**	**69,746**

Maturity analysis of gross loans and **Advances to customers:**	**2022** **KShs million**	**2021** **KShs million**
Maturing as follows:		
Within 1 month	81,736	60,221
After 1 month but within 3 months	31,495	15,087
After 3 months, but within 1 year	145,963	96,884
After 1 year, but within 5 years	239,670	212,019
After 5 years	433,301	357,354
	932,165	**741,565**
Sectorial analysis of gross loans and		
advances to customers:		
Private sector and individuals	824,930	707,432
Government and parastatals	107,235	34,133
	932,165	**741,565**

The weighted average effective interest rate on loans and advances as at 31 December 2022 was 10.1% (2021 – 10.8%).

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Notes (Continued)

26. Loans and advances to customers (Continued)

Loan and advances at fair value through profit or loss

	2022 KShs million	2021 KShs million
Gross carrying value	5,400	3,396
Fair value loss provision	(2,812)	266
At end of year	**2,588**	**3,662**

Loans and advances at fair value relate to loan notes issued to a Special Purpose Entity (SPE) formed as part of a restructuring arrangement between lender banks and Kenya Airways Plc in 2016. Under the terms of the restructuring, the amounts owing to the banks were transferred to the SPE, which in exchange was allocated equity shares of Kenya Airways Plc. Principally, the banks will recover the amounts due through the sale of Kenya Airways shares. The banks receive a fixed interest income on the amounts due at a rate that is largely below the market rates.

27. Financial assets at amortised cost

	Group		Company	
	2022 KShs million	2021 KShs million	2022 KShs million	2021 KShs million
Maturing as follows:				
Within 1 month	2,018	626	-	-
After 1 month, but within 3 months	1,663	320	-	-
After 3 months, but within 6 months	1,416	639	-	-
After 6 months, but within 12 months	2,682	8,944	-	-
After 1 year, but within 5 years	24,127	20,606	-	-
After 5 years	132,616	99,992	-	-
	164,522	**131,127**	**-**	**-**

Treasury bonds are debt securities issued by the Government of the Republic of Kenya, Government of Uganda, Government of the Republic of Rwanda, United Republic of Tanzania, Government of the Republic of Burundi and Government of DRC. The bills and bonds are categorized as amounts held at amortized cost and carried at amortized cost. The weighted average effective interest rates on Government securities as at 31 December 2022 was 11.5 % (31 December 2021: 7.7%).

28. Financial assets at fair value through profit or loss (FVTPL)

	Group		Company	
	2022 KShs million	2021 KShs million	2022 KShs million	2021 KShs million
Government treasury bills and bonds	17,403	5,462	-	-
At end of year	**17,403**	**5,462**	**-**	**-**

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Notes (Continued)

29. Property and equipment

As 31 December 2022: **Cost**	**Freehold and Lease Premises Kshs million**	**Leasehold Improvements Kshs million**	**Motor Vehicle, Furniture and Equipment Kshs million**	**Total Kshs million**
At start of year	7,453	4,412	33,278	45,143
Reclassification	728	-	268	996
Additions	82	60	3,871	4,013
Acquisitions	10,705	-	5,324	16,029
Disposals	(1,142)	(4)	(335)	(1,481)
Translation differences	337	(210)	285	412
Hyperinflationary charge	-	(75)	(45)	(120)
At end of year	**18,163**	**4,183**	**42,646**	**64,992**
Depreciation				
At start of year	1,631	3,380	23,318	28,329
Charge for the year	79	107	2,649	2,835
Acquisitions	2,593	-	3,158	5,751
Disposals	(87)	-	(327)	(414)
Reclassification	170	-	1,618	1,788
Translation differences	119	(46)	43	116
Hyperinflationary charge	-	(27)	(4)	(38)
At end of year	**4,505**	**3,414**	**30,455**	**38,374**
Carrying amount	**13,658**	**769**	**12,191**	**26,618**

As at 31 December 2021:				
Cost				
At start of year	4,510	5,255	29,340	39,105
Reclassification	94	-	(410)	(316)
Additions	-	35	2,711	2,746
Acquisitions	2,843	-	2,393	5,236
Disposals	-	(6)	(90)	(96)
Translation differences	6	(342)	(141)	(476)
Hyperinflationary charge	-	35	20	55
At end of year	**7,453**	**4,977**	**33,823**	**46,254**
Depreciation				
At start of year	499	3,736	20,241	24,476
Acquisitions	1,101	-	1,478	2,579
Charge for the year	51	250	2,141	2,442
Disposals	3	(3)	(85)	(85)
Reclassification	(25)	-	-	(25)
Translation differences	2	(78)	(50)	(126)
Hyperinflationary charge	-	(11)	11	-
At end of year	**1,631**	**3,894**	**23,736**	**29,261**
Carrying amount	**5,822**	**1,083**	**10,087**	**16,993**

Included in property and equipment are fully depreciated assets amounting to KShs 16,404 million (2021 – KShs 15,695 million) which would have a notional depreciation of KShs 2,129 million (2021 – KShs 2,296 million).

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

29. Property and equipment (Continued)

b) Company

As 31 December 2022: **Cost**	**Freehold and Lease Premises KShs million**	**Leasehold Improvements KShs million**	**Motor Vehicle, Furniture and Equipment KShs million**	**Total KShs million**
At start of year	585	-	91	676
Additions	-	-	230	230
At end of year	**585**	**-**	**321**	**906**
Depreciation				
At start of year	35	-	27	62
Charge for the year	3	-	13	16
At end of year	**38**	**-**	**40**	**78**
Carrying amount	**547**	**-**	**281**	**828**
As at 31 December 2021:				
Cost				
At start of year	585	-	79	664
Additions	-	-	12	12
At end of year	**585**	**-**	**91**	**676**
Depreciation				
At start of year	32	-	16	48
Charge for the year	3	-	11	14
At end of year	**35**	**-**	**27**	**62**
Carrying amount	**550**	**-**	**64**	**614**

Included in property and equipment are fully depreciated motor vehicle, furniture and equipment amounting to 13,127 million (2021 – KShs. 15,695 Million) which would have a notional depreciation of KShs 2,293 million (2021 – KShs 2,296 Million).

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Notes (Continued)

30. Investment property

	GROUP		COMPANY	
	2022 KShs million	2021 KShs million	2022 KShs million	2021 KShs million
At start of year	10,666	6,035	-	-
Additions in year	2,373	5,541	-	-
Disposals in the year	(438)	-	-	-
Gain /loss) on revaluation	-	(910)	-	-
At end of year	**12,601**	**10,666**	**-**	**-**

31. Right-of-use assets

	2022			2021		
	Leasehold premises KShs million	Leased motor vehicles KShs million	Totals KShs million	Leasehold premises KShs million	Leased motor vehicles KShs million	Totals KShs million
Cost						
At 1 January 2022	7,898	1,259	9,157	8,575	1,296	9,871
Acquisition of a subsidiary	-	-	-	215	-	215
Additions	150	-	150	496	-	496
Disposals	(970)	-	(970)	(352)	-	(352)
Reclassification/internal transfers	955	-	955	(46)	-	(46)
Hyperinflationary charge	(26)	-	(26)	10	-	10
Translation difference	86	-	86	(48)	(1)	(49)
At end of year	**8,093**	**1,259**	**9,352**	**8,850**	**1,295**	**10,145**
Amortisation						
At 1 January 2022	(3,866)	(774)	(4,640)	(3,988)	(424)	(4,412)
Disposals	402	-	402	352	-	352
Charge for the year	(1,123)	(32)	(1,155)	(835)	(608)	(1,443)
Acquisition of a subsidiary	-	-	-	-	-	-
Reclassification/internal transfers	(669)	-	(669)	(17)	247	230
Hyperinflationary charge	7	-	7	(1)	-	(1)
Translation difference	(64)	-	(64)	(9)	-	(9)
At end of year	**(5,313)**	**(806)**	**(6,119)**	**(4,498)**	**(785)**	**(5,283)**
Carrying Amount						
At end of year	**2,780**	**453**	**3,233**	**4,352**	**510**	**4,862**

Right-of-use assets relate to leased premises and motor vehicles.

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For the Year Ended 31 December 2022

Notes (Continued)

32. Intangible assets

At 31 December 2022: Cost	Computer software KShs million	Brand KShs million	Customer relationships KShs million	Customer deposits KShs million	Goodwill KShs million	Total KShs million
At 1 January 2022	**21,214**	**339**	**211**	**1,631**	**-**	**23,395**
Additions	1,309	-	-	-	-	1,309
Disposal	(8)	-	-	-	-	(8)
Acquisition	2,752	983	1,939	6,489	3,070	15,233
Reclassification/internal transfers	1,065	-	-	-	-	1,065
Translation differences	61	-	-	-	-	61
At end of year	**26,393**	**1,322**	**2,150**	**8,120**	**3,070**	**41,055**
Amortisation						-
At 1 January 2022	16,383	-	-	-	-	16,383
Acquisitions	779	-	-	-	-	779
Disposals	(8)	-	-	-	-	(8)
Amortization for the year	1,973	101	63	488	-	2,625
Translation differences	61	-	-	-	-	61
At end of year	**19,188**	**101**	**63**	**488**	**-**	**19,840**
Carrying amount	**7,205**	**1,221**	**2,087**	**7,633**	**3,070**	**21,215**

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For the Year Ended 31 December 2022

Notes (Continued)

32. Intangible assets (Continued)

As 31 December 2021: Cost	Computer software KShs million	Brand KShs million	Customer relationships KShs million	Customer deposits KShs million	Goodwill KShs million	Total KShs million
At 1 January	18,897	-	-	-	-	18,897
Additions	1,054	-	-	-	-	1,054
Disposal	(89)	-	-	-	-	(89)
Acquisition	906	339	211	1,631	-	3,087
Reclassification/internal transfers	498	-	-	-	-	498
Translation differences	28	-	-	-	-	28
At end of year	**21,294**	**339**	**211**	**1,631**	**-**	**23,475**
Depreciation						
Amortisation						
At 1 January	13,398	-	-	-	-	13,398
Acquisitions	819	-	-	-	-	819
Disposal	(89)	-	-	-	-	(89)
Amortization for the year	2,143	-	-	-	-	2,143
Translation differences	194	-	-	-	-	194
At end of year	**16,465**	**-**	**-**	**-**	**-**	**16,465**
Carrying amount	**4,829**	**339**	**211**	**1,631**	**-**	**7,010**

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Notes (Continued)

32. Intangible assets (Continued)

	Company	
	2022 KShs million	**2021 KShs million**
Cost		
At 1 January 2022	10	10
Additions	-	-
Disposal	-	-
Acquisition	-	-
Reclassification/internal transfers	-	-
Translation differences	-	-
At end of year	**10**	**10**
Amortisation		
At 1 January 2022	5	3
Acquisitions		
Disposals	-	-
Amortization for the year	2	2
Translation differences	-	-
At end of year	**7**	**5**
CARRYING AMOUNT		
At end of year	**3**	**5**

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Notes (Continued)

33. Investment in subsidiary undertakings

(a) Investment in subsidiaries

Investments in subsidiaries: Incorporated in Kenya:		Beneficial ownership	2022 KShs million	2021 KShs million
Company	**Activity**	**%**		
KCB Bank Kenya Limited	Commercial Banking	100	53,986	53,986
Kenya Commercial Finance Company Limited	Dormant	100	150	150
KCB Capital Limited	Investment	100	400	400
Savings & Loan Kenya Limited	Dormant	100	500	500
KCB Foundation	Corporate Social Responsibility	100	-	-
National Bank of Kenya Limited	Commercial Banking	100	14,646	14,646
Kenya Commercial Bank Nominees Limited	Nominee Shareholding	100	-	-
Kencom House Limited	Property Ownership & Management	100	749	749
KCB Bancassurance Intermediary Limited	Insurance Brokerage	100	-	-
Incorporated outside Kenya:				
KCB Bank Tanzania Limited	Commercial Banking	100	3,546	3,546
KCB Bank South Sudan Limited	Commercial Banking	100	2,355	2,355
KCB Bank Rwanda Limited	Commercial Banking	-	-	2,705
KCB Bank Burundi Limited	Commercial Banking	100	936	936
KCB Bank Uganda Limited	Commercial Banking	100	4,340	3,145
BPR Bank Rwanda Plc	Commercial Banking	87	7,551	4,846
Trust Merchant Bank, SA	Commercial Banking	85	25,111	-
Investment in associates:				
United Finance Limited*	Dormant	45	-	-
			114,270	**87,964**

*Investment in United Finance is at KShs 125,000

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Notes (Continued)

33. Investment in subsidiary undertakings (Continued)

(a) Investment in subsidiaries (Continued)

Movement in investment in subsidiaries	2022 KShs million	2021 KShs million
At start of year	**87,964**	**79,663**
Acquisition of BPR Rwanda	-	4,846
Additional equity in KCB Uganda	1,195	-
Acquisition of Trust Merchant Bank SA	25,111	-
Additional equity in National Bank of Kenya	-	3,455
Total additional investment in subsidiaries	**26,306**	**8,301**
At end of year	**114,270**	**87,964**

During the year, Banque Populaire du Rwanda and KCB Bank Rwanda were amalgamated into one entity, BPR Bank Plc through additional allocation of shares to the Group. The significant risks for the various subsidiaries have been documented in Note 4.

Significant restrictions

The Group does not have any significant restrictions on its ability to access or use its assets to settle its liabilities other than those resulting from the regulatory frameworks in the respective operating jurisdictions of the subsidiaries. The regulatory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other certain ratios in the operations. The Group and its subsidiaries were compliant with all regulatory requirements at the year end except National Bank of Kenya which was compliant with regulatory ratios with regards to core capital as of 31 December 2022, except for the total capital to risk-weighted assets. The total capital to risk weighted assets stood at 13.2% as at 31 December 2022 (2021 -12.7%) against the required minimum of 14.5%.

KCB Foundation is the corporate social responsibility arm of the Group which is independently governed and operated. It receives significant funding from third parties for its projects and activities. Its financial information is not consolidated in the KCB Group financial statements.

(b) Acquisition of Trust Merchant Bank, SA (TMB)

On 30 November 2022, the Group acquired 131,750 of the issued shares, representing 85% shareholding and voting control, of Trust Merchant Bank (TMB) for a total cash consideration of KShs 25,111 million.

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For the Year Ended 31 December 2022

Notes (Continued)

33. Investment in subsidiary undertakings (Continued)

(b) Acquisition of Trust Merchant Bank (TMB) SA (Continued)

(i) Net acquired assets

An analysis of the fair value of net assets recognised as a result of the acquisition is as follows:

Assets	2022 KShs million
Cash and bank balances	129,151
Loans and advances to banks	583
Other assets and prepayments	5,311
Current Tax	215
Deferred Tax	79
Loans and advances to customers (net)	62,190
Property & equipment	9,948
Intangible assets – core deposits	6,489
Intangible assets – customer relationships	1,939
Intangible assets – brand	983
Intangible assets – software	170
Deposits from banks	(11)
Current income tax	(842)
Customer deposits	(183,596)
Borrowings	(513)
Deferred income tax	(3,603)
Payables and accrued expenses	(2,562)
Net identifiable assets acquired	**25,931**
Less: Non-controlling interests (15%)	(3,890)
Add: Goodwill	3,070
Consideration paid	**25,111**

The goodwill is attributable to the future prospects of operating in the market in DRC which has a great potential given that the majority of the population is unbanked and the need for taking the banking services to the people with leverage the Group's presence across the East African community. The bank also has a loyal customer base.

For the one month ended 31 December 2022, TMB contributed revenue of KShs 2,323 million and loss before income tax of KShs 65 million to the Group's results. If the combination had taken place at the start of year, the contributions to the Group's revenue would have been KShs 15,294 million and profit before income tax of KShs 3,041 million.

(ii) Acquisition related costs

The Group incurred acquisition-related costs of KShs 104 million on consultancy, legal fees and due diligence which have been charged to the profit and loss account for the year.

(iii) Significant judgements in the estimation of intangible assets

Intangible assets arising from the acquisition include Brand value (KShs 983 million), Customer relationships (KShs 1,939 million) and Core deposits (KShs 6,489 million). The key considerations applied in the estimation of the fair value of these intangibles is as follows:

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Notes (Continued)

33. Investment in subsidiary undertakings (Continued)

(b) Acquisition of Trust Merchant Bank (TMB) SA (Continued)

Brand

A brand is defined as a way in which a company or organization is perceived by its customers. TMB is a well known brand in the Democratic Republic of Congo (DRC) since 2004 and is currently among the top banks in that market.

The fair value of brand was determined using the relief-from-royalty (RFR) method. The RFR method values the intangible assets by reference to the amount the acquirer would pay in an arm's length transaction i.e. it estimates the value for an asset based on the cost savings realised through ownership compared to paying licensing fees. The royalty rate is applied to the estimated income stream attributable to the brand to determine the amount of royalty savings, which is then discounted at the applicable discount rate to arrive at the estimated fair value. The brand value will be amortised to the profit or loss account over a period of five years.

Customer Relationships

The value of a customer relationship is mainly derived from the expectation of repeat business from the customer as well as the opportunity to cross sell various products and services to them. In the case of a bank, this value depends on the ability of the bank to provide banking products that meet customers' needs now and in the future. When determining if a customer relationship asset exists, the following elements have to be considered:

- Availability of factual information about the customers that is important and useful to the bank; and
- Expectations by the bank of repeat patronage from its customers based on the customers' banking activity. This expectation translates into the future revenue and cash flow to the bank.

The customer contracts were acquired as part of the business acquisition of TMB. They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line basis based on the timing of the projected cash flows of the contracts over their estimated useful lives.

The fair value of customer relationships was valued using MEEM approach. The MEEM approach method measure the excess after tax cashflows attributable to the intangible asset being valued after providing the appropriate returns on other identifiable assets. The customer relationship value will be amortised to the profit or loss over a period of five years.

Core Deposits

The premise underlying the core deposit intangible asset is that a rational buyer would be willing to pay a premium to obtain a group of core deposit accounts that are less expensive than the buyer's marginal cost of funds. It relates to a stable deposit base with no contractual maturity that provides a low-cost source of funding (versus the alternative interbank funding market).

A core deposit intangible asset arises on acquisition when the acquired bank has a stable deposit base composed of funds associated with long-term customer relationships. The stable deposit base provides a low-cost source of funding as banks are able to utilize the core deposit base as a low-cost source of finance. The alternative to replace these established, low-cost deposit accounts in a timely manner, would be to utilize higher cost funds at current market rates.

The fair value of the core deposit intangible was determined using the cost savings method. It's calculated as the after-tax present values of; (i) net cost of funding and (ii) net service fees earned on deposits. Net cost of funding is the difference between interest expense on acquired low cost saving and demand deposit and cost of alternative funding over the useful life of the deposit. Amortisation for this asset is for five years.

(iv) Net out flow of cash on acquisition

An analysis of the cash outflow on the acquisition is as follows:

	2022 KShs million
Cash consideration paid	(25,111)
Cash and cash equivalent acquired:	
Cash and bank balances	129,151
Net cash inflow on acquisition	**104,040**

(v) Share option rights

As part of the post-completion shareholders' agreement, KCB purchased share option call rights relating to the 23,250 shares held by the non-controlling interest for KShs 123 per remaining shareholder. The call rights provides KCB Group irrevocable right to purchase the remaining shares at a set exercise price at any time after two years of the completion of the acquisition. The agreement also provides "put options" to the remaining shareholders, which can only be exercised in the event that KCB does not exercise the call options within 60 business days from the 15th of December 2024.

The terms of the agreement do not provide KCB present access to returns associated with the interests of the remaining shareholders i.e. the returns associated with the shares will accrete to the remaining shareholders until the options are exercised. For that reason, the non-controlling interest (NCI) have been recognised in the group consolidated financial statements.

The fair value of the call options is estimated as the difference between the strike exercise price and the value of the shares plus a time value/ time premium of the option. The directors believe that call options do not have a material financial accounting impact on the group financial statements.

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Notes (Continued)

33. Investment in subsidiary undertakings (Continued)

(c) Non-controlling interest summarized performance at year end

Summarised balance sheet	2022 KShs million
Total assets	210,225
Total liabilities	191,427
Net assets	18,798
Accumulated NCI	2,720
Summarised statement of comprehensive income	
Net interest income	2,367
Profit for the period	(291)
Profit allocated to NCI	(44)
Dividends paid to NCI	-
Summarised cash flows	
Cash flows from operating activities	27,226
Cash flows from investing activities	(1,186)
Cash flows from financing activities	-
Net increase in cash and cash equivalents	**26,040**

The following are the particulars on the NCI as at 31 December 2022:

Particulars Summarised balance sheet	BPR 2022 KShs million	TMB 2022 KShs million
Total assets	92,522	210,225
Total liabilities	78,150	191,427
Net assets	**14,372**	**18,798**
Accumulated NCI	1,956	4,120
Summarised statement of comprehensive income		
Net interest income	6,892	2,367
Profit for the period	**2,482**	**(291)**
Profit/ (loss) allocated to NCI	323	(44)
Dividends paid to NCI	-	
Summarised cash flows		
Cash flows from operating activities	(500)	27,226
Cash flows from investing activities	(363)	(1,186)
Cash flows from financing activities	2,557	-
Net increase in cash and cash equivalents	**1,694**	**26,040**

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Notes (Continued)

34. Deferred income tax

Group

(a) Deferred income tax assets 2022	At start of year KShs million	Recognised in profit or loss KShs million	Recognised in Other comprehensive income KShs million	At end of year KShs million
Property and equipment	1,188	218	-	1,406
Provisions	20,869	1,207	-	22,076
Tax losses carried forward	996	620	-	1,616
Financial assets at FVOCI	(846)	-	1,266	420
Post-employment benefits obligation	175	-	65	240
	22,382	**2,045**	**1,331**	**25,758**
2021				
Property and equipment	937	251	-	1,188
Provisions	16,566	4,292	11	20,869
Tax losses carried forward	1,193	(197)	-	996
Financial assets at FVOCI	(1,099)	(4)	257	(846)
Post-employment benefits obligation	50	-	125	175
	17,647	**4,342**	**393**	**22,382**

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Notes (Continued)

34. Deferred income tax (Continued)

(b) Deferred income tax liability

This relates to deferred tax liabilities arising from intangible assets on acquisition of BPR bank and TMB Bank.

Company

	At start of year KShs million	Recognised in profit or loss KShs million	Recognised in Other comprehensive income KShs million	At end of year KShs million
COMPANY				
2022				
Property and equipment	3	116	-	119
Unrealised gains and losses	(10)	-	-	(10)
	(7)	116	-	(110)
2021				
Property and equipment	1	2	-	3
Unrealised gains and losses	(11)	1	-	(10)
	(10)	3	-	(7)

Other deductible differences mainly relate to allowances for expected credit losses on loans and advances which are only deductible for tax purposes when the credit losses meet the income tax law guidelines for tax deductibility which include among others credit write-off, total inability to collect etc.

The directors believe that, based on the historical performance, the Group, will have future taxable profits against which these assets can be utilised and also meet the income tax law conditions for deductibility of the allowances for expected credit losses on loans and advances.

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Notes (Continued)

35. Deposits from banks

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Deposits and balances from banks	92,787	47,817	-	-
Payable within 1 month	86,722	36,347	-	-
Payable after 1 month, but within 3 months	4,624	9,893	-	-
Payable after 3 months, but within 1 year	1,441	1,577	-	-
	92,787	**47,817**	**-**	**-**

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2022 was 1.1% (2021 – 4.9%).

36. Deposits from customers

		Group		Company	
		2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
(a)	From government and parastatals:				
	Maturing as follows:				
	Within 1 month	209,959	261,821	-	-
	After 1 month, but within 3 months	13,478	21,765	-	-
	After 3 months, but within 1 year	5,783	3,536	-	-
	After 1 year, but within 5 years	192,451	253	-	-
		421,671	287,375	-	-
(b)	From private sector and individuals				
	Maturing as follows:				
	Within 1 month	457,136	415,584	-	-
	After 1 month, but within 3 months	69,158	68,325	-	-
	After 3 months, but within 1 year	78,394	58,921	-	-
	After 1 year, but within 5 years	109,058	6,936	-	-
		713,747	549,766	-	-
	Total other customer deposits				
	Maturing as follows:				
	Within 1 month	667,095	677,405	-	-
	After 1 month, but within 3 months	82,636	90,090	-	-
	After 3 months, but within 1 year	84,177	62,457	-	-
	After 1 year, but within 5 years	301,509	7,189	-	-
		1,135,417	**837,141**	**-**	**-**

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2022 was 1.1 % (2021 – 2.6%).

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For the Year Ended 31 December 2022

Notes (Continued)

37. Payables and accrued expenses

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Other payables and accrued liabilities	27,089	23,546	766	606
Bills payable	9,679	6,662	-	-
Other liabilities	8,221	-	-	-
	44,989	**30,208**	**766**	**606**

Bills payable consist of cheques issued by the Group to customers and suppliers that were not presented for payment at the end of the year. Other payables include items in suspense across the branch network.

Other liabilities relate to funds received in relation to externalization of non-performing loans & advances to third parties under Standby Letters of Credit (SBLC) arrangements. The corresponding loans have not been derecognized because the group remains exposed to their credit risk. If the borrowers, default on the terms of the externalized loans, the funds are payable to the third parties.

38. Lease liabilities

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
At start of year	6,681	6,858	-	-
Additions during the year	725	523	-	-
Reclassifications/ internal transfers	(1,348)	237	-	-
Interest expense in the year	568	606	-	-
Payments in the year	(497)	(1,378)	-	-
Hyperinflationary change	-	(139)	-	-
Translation adjustment	(256)	(26)	-	-
At end of year	**5,873**	**6,681**	**-**	**-**

The balance sheet shows the following amounts relating to leases.

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Current	1,353	505	-	-
Non-Current	4,520	6,176	-	-
	5,873	**6,681**	**-**	**-**

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For the Year Ended 31 December 2022

Notes (Continued)

38. Lease liabilities (Continued)

The statement of profit or loss shows the following amounts relating to leases:

Amortisation of right-of-use assets	1,155	1443
Interest expense	568	606
Expense relating to short-term leases (included in administrative expenses)	337	520

The total cash outflow for leases in the year was KShs 497 million (2021: KShs 1,231million) that related to principal portion of lease payments, expenses related to short term leases and interest expense on the leases.

Some leases of office premises contain extension options exercisable by the Group up to one term after the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

39. Related party transactions

The group entities transact with each other in the ordinary course of business under the group established commercial arrangements. The transactions include loans, deposits and foreign currency transactions, and expense settlements between entities. Related party transactions and balances have been eliminated in the consolidated financial statements.

The outstanding balances between the company and its subsidiaries at year end are set out below.

Receivables from and payables to subsidiaries are non-interest bearing and are generally settled within 90 days.

(a) Balances due from related companies	**2022 KShs million**	**2021 KShs million**
KCB Bank Tanzania Limited	81	121
KCB Bank Burundi Limited	34	79
KCB Bank Uganda Limited	20	2
KCB Bancassurance Intermediary Limited	-	6
BPR Bank Rwanda Plc	83	40
KCB Bank South Sudan Limited	23	177
KCB Burundi Limited	35	-
Kencom House Limited	2	-
KCB Bank Kenya Limited	3,326	1,354
KCB Capital Limited	1	5
National Bank of Kenya Limited	59	16
	3,664	**1,800**
(b) Balances due to related companies		
KCB Bank Kenya Limited	5,986	-
KCB Bancassurance Intermediary Limited	38	-
	6,024	-
Net balances payable/receivable from group companies	**(2,360)**	**1,800**

The above amounts relate to receivables from and payable to the holding company.

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Notes (Continued)

39. Related party transactions (Continued)

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
(i) Loans				
Government of Kenya	-	-	-	-
Directors - Executive	19	19	-	-
- Non-Executive	211	184		
Senior management	**230**	**203**	**-**	**-**
Movement in loans to ***Directors and senior management:***				
At start of year	203	184	-	-
Loans issued in the year	258	236	-	-
Repayments in the year	(231)	(217)	-	-
At end of year	**230**	**203**	**-**	**-**
Accrued interest income	24	18		
(ii) Deposits				
Government of Kenya	38	28	-	-
Directors	81	63	-	-
Senior management	47	86	-	-
At end of year	**166**	**177**	**-**	**-**
Movement in deposits by ***Directors and senior management:***				
At start of year	177	235	-	-
Deposits received during the year	1,247	1,341	-	-
Withdrawals in the year	(1,258)	(1,399)	-	-
At end of year	166	177	-	-
Interest expense	**26**	**6**	**-**	**-**

Interest rates charged on balances outstanding from related parties are approximately half of the rates that would be charged in an arm's length transaction. The interest charged on balances outstanding from related parties amounted to KShs 24 million (2021 – KShs 18 million). The interest paid on balances outstanding to related parties amounted to KShs 26 million (2021 – KShs 6 million). The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured, and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel and no specific allowance has been made for impairment losses on balances with key management personnel at the reporting date.

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For the Year Ended 31 December 2022

Notes (Continued)

39. Related party transactions (Continued)

c) Shareholders, Directors and key management personnel

Senior management personnel compensation (Included under personnel costs)

	Group		Company	
	2022 KShs million	2021 KShs million	2022 KShs million	2021 KShs million
Short term employee benefits	**442**	**477**	**442**	**477**

(d) Directors' emoluments

	Group		Company	
	2022 KShs million	2021 KShs million	2022 KShs million	2021 KShs million
Executive directors:				
Salaries and other staff benefits	442	477	442	477
Fees and other benefits to non-executive directors	126	121	72	48
	568	**598**	**514**	**525**

40. Borrowings

Maturing within one year	204	683	-	-
Maturing after one year, but within five years	17,380	18,023	-	-
Maturing after five years	46,026	18,855	-	-
	63,610	**37,561**	**-**	**-**

Reconciliation of the movement in the long-term debt

	2022 KShs million	2021 KShs million
At start of year	37,561	37,032
Borrowings transferred to KCB Bank Kenya Limited	-	191
Funds received - Kenya Mortgage Refinance Corporation	1,793	-
Funds received - Global Access Fund Plc	629	-
Funds received - International Finance Corporation	18,113	-
Interest accrued in the year	6,947	4,564
Payments on principal	(2,638)	(3,077)
Payments on interest	(2,450)	(1,814)
Translation differences	3,655	665
Net movement in borrowings	**26,049**	**529**
At end of year	**63,610**	**37,561**

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Notes (Continued)

40. Borrowings (Continued)

The long-term debt includes:

(a) A 10-year loan obtained by KCB Bank Kenya from International Finance Corporation in 2022 of USD 150 million by the Bank at interest terms of SOFR +1.8% p.a

(b) A 5-year loan obtained by NBK from Global Access Fund Plc in 2022 at interest terms of 4.50% p.a

(c) A 10-year loan obtained from Kenya Mortgage Refinance Company (KMRC) in 2022 of KES 1.7 billion by KCB Bank Kenya at interest terms of 5.00% p.a.

(d) A 10-year loan obtained from International Finance Corporation in 2020 of USD 150 million by KCB Bank Kenya at interest terms of Libor +5.15% p.a.

(e) A 7-year loan obtained of EUR 7 million from European Investment Bank at interest terms of 7.96% p.a. by KCB Bank Rwanda in 2019.

(f) A 7-year loan obtained from African Development Bank (ADB) in 2018 of USD 100 million by KCB Bank Kenya at interest terms of Libor+2.70% p.a.

(g) A 7-year loan obtained from International Finance Corporation (IFC) in 2018 of USD 75 million by KCB Bank Kenya at interest terms of Libor+5.3% p.a.

(h) A 3-year loan obtained from Tanzania Mortgage Refinance Company (TMRC) by KCB Bank Tanzania in 2018 of TZS 5.0 billion at interest terms of 10.0% p.a.

(i) A 7-year loan obtained from European Investment Bank by KCB Bank Uganda in 2017 of UGX 33 billion at interest terms of 11.66% p.a.

(j) A 7-year loan obtained from European Investment Bank (EIB) by KCB Bank Tanzania in 2017 of TZS 27.9 billion at interest terms of 9.72% p.a.

(k) A 3-year loan obtained from Tanzania Mortgage Refinance Company (TMRC) by KCB Bank Tanzania in 2017 of TZS 5.0 billion at interest terms of 12.5% p.a.

(l) A 5-year loan obtained from International Finance Corporation by KCB Bank Uganda in 2016 of USD 10 million at interest terms of Libor +3.5% p.a.

(m) A 5-year loan of RWF 4,412 million obtained by KCB Bank Rwanda from European Investment Bank, its effective interest rate is 8.04% p.a.

The Group's long-term borrowing contracts are subjected to specific covenant clauses, whereby the Group is required to meet certain key financial ratios. This includes the requirement that the Open Credit Exposure Ratio (including Covid-19 restructured loans) should not exceed 110%.

As at 31 December 2022, the actual ratios for one of our subsidiaries (KCB Bank Kenya) was higher than required, as a result of an increase in loans in arrears for more than ninety (90) days and increase in restructured loans, particularly within the hospitality, tourism, real estate, building and construction sectors which have been impacted by the prolonged Covid 19 pandemic effects.

The Group was however compliant with all principal and interest repayments as required in the loan agreements. In addition, the lenders have not varied the terms of the loan agreement or requested for an early repayment of the loan as at the date these financial statements were approved by the Board of Directors. Management is in the process of seeking a waiver of the ratios that are in breach and expects approval by the second quarter of 2023.

The Group's long-term borrowing contracts are subjected to specific covenant clauses, whereby the Group is required to meet certain key financial ratios.

As at 31 December 2022, the Group was compliant with all other financial ratios.

41. Share capital

	Group and Company	
	2022 KShs million	**2021 KShs million**
Authorised:		
4,500,000,000 (2021: 4,500,000,000) at 1 January and 31 December ordinary shares of KShs 1 each	4,500	4,500
Issued and fully paid:		
At start of year 3,213,462,815 and at end of year ordinary shares of KShs 1 each	3,213	3,213

All ordinary shares rank equally with regards to the Company's residual assets, entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the company.

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For the Year Ended 31 December 2022

Notes (Continued)

42. Reserves

Other reserves comprise of retirement benefits obligation reserve, currency translation reserve and fair value reserves on financial assets at fair value through other comprehensive income.

The fair value reserve on financial assets carried at fair value through other comprehensive income (FVTOCI) arises from the fair valuation of the designated assets at the year end. The fair value gains and losses are recognised in the profit or loss on the derecognition of the underlying assets. This amount is not available for distribution to shareholders.

The *translation reserve* arises from translation of the net investment in foreign subsidiaries to Kenya Shillings. This amount is not available for distribution.

Retirement benefits obligation reserve arises from changes in the group retirement benefits obligation based on annual actuarial valuations. The reserves are recognized in income statement once the underlying asset has been derecognized and is not available for distribution.

The movement in other reserves is as follows:

	Group	
	2022 KShs million	**2021 KShs million**
At start of year	(8,385)	(6,668)
Foreign currency translation differences on foreign operations	448	(795)
Re-measurement benefits obligation (net of tax)	(153)	(293)
Fair value loss on financial assets at FVOCI	(2,952)	(629)
At end of year	**(11,042)**	**(8,385)**

The *share premium* arises from issue of shares at a price higher than the par value of the shares. This amount is not available for distribution.

Statutory credit risk reserve relates to amounts set aside to cover additional provision for credit losses on loans and advances required to comply with the requirements of Central Banks Prudential guidelines. This amount is not available for distribution. The movement is the year is as follows:

	2022 KShs million	**2021 KShs million**
At start of year	7,959	2,155
Transfers from/(to) retained earnings	18,748	5,804
At end of year	**26,707**	**7,959**

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Notes (Continued)

43. Dividends

Dividends are recognized as a liability in the period in which they are declared.

At the Annual General Meeting to be held on 25 May 2023, a total dividend in respect of the year ended 31 December 2022 of KShs 2.00 per share (2021: KShs 3.00 per share) amounting to KShs 6,426 million (2021: KShs 9,640 million) will be proposed. Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

44. Notes to the statement of cash flows

	Group		Company	
(a) Cash flows from operating activities	**2022 KShs million**	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
This has been derived as follows:				
Profit before tax	57,331	47,815	32,204	15,529
Adjustments for:				
Depreciation of property and equipment	2,835	2,442	16	14
Depreciation of right of use	1,155	1,433	-	-
Amortization of intangible assets	2,625	2,143	2	2
Retirement benefit expense	68	62	-	-
Interest expense on lease liability	470	520	-	-
Net interest income	(100,905)	(90,363)	(19)	(157)
Dividend income	-	-	(32,824)	-
Hyperinflation adjustments	(299)	(515)	-	-
Profit/ (loss) on disposal of property and equipment	7	(20)	-	-
Operating profit before movements in operating assets and liabilities	**(36,713)**	**(36,483)**	**(621)**	**15,388**

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For the Year Ended 31 December 2022

Notes (Continued)

44. Notes to the statement of cash flows (Continued)

	Group		Company	
(b) Cash flows from operating activities	**2022 KShs million**	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Cash reserve ratio	(3,985)	5,500	-	-
Financial assets at amortised cost	(33,395)	(19,700)	-	-
Financial assets at FVOCI	26,206	(45,420)	-	-
Loans and advances	(129,275)	(67,553)	-	-
Due from related companies	-	-	1,800	(5,140)
Other assets	(17,218)	(3,370)	(58)	28
Deposits from banks	44,959	28,149	-	-
Other customer deposits	111,097	69,917	-	-
Other liabilities	11,539	10,845	160	554
Due to related parties	-	-	2,360	-
Investment accounted for using equity method	(675)	-	-	-
	(27,460)	**(69,105)**	**3,641**	**10,830**
Interest received	132,003	114,826	19	157
Dividend received	-	-	32,739	-
Interest paid	(31,098)	(24,463)	-	-
Income taxes paid	(23,968)	(11,939)	(31)	(90)
Net cash flows from operating activities	**49,477**	**9,319**	**36,368**	**10,897**
(c) Analysis of cash and cash equivalents				
Balances with Central Banks (Note 21)	16,685	12,606	-	-
Cash on hand (Note 21)	29,290	17,835	-	-
Financial assets at amortised cost (Note 27)	3,681	945	-	-
Advances to banks (Note 22)	163,632	26,642	712	517
	213,288	**58,029**	**712**	**517**

For the purpose of the statement of cash flows, cash and cash equivalents comprise financial assets at amortised cost with less than three months to maturity from the date of acquisition.

Cash and cash equivalents exclude, KShs 45,156 million (2021 - KShs 41,171 million) being the cash reserve requirement held with the Central Banks which is not available for general use by the Group.

The cash and cash equivalent components disclosed above are same amounts included in the statement of financial position except held at amortised cost investments, whose reconciliation is as follows:

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Notes (Continued)

44. Notes to the statement of cash flows (Continued)

	Group		Company	
Analysis of cash and cash equivalents (Continued)	**2022 KShs million**	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Balance as per statement of cash flows	3,681	946	-	-
Balances with less than three months maturity from the acquisition date	160,841	130,181	-	-
Balance as per statement of financial position	**164,522**	**131,127**	**-**	**-**

45. Commitments

To meet the financial needs of the customers, the Group enters into various irrevocable commitments. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

	Group		Company	
	2022 KShs million	**2021 KShs million**	**2022 KShs million**	**2021 KShs million**
Capital commitments contracted for at year end	2,682	2,682	-	
Loans committed but not disbursed at year end	33,302	7,451	-	
Foreign currency commitments	(15,035)	(15,113)	-	

Commitments to extend credit represent contractual commitments to make loans and other credit facilities to counterparties who, as per the Group credit risk rating model, are rated as either normal or watch. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

46. Off balance sheet financial instruments

	2022 KShs million	**2021 KShs million**
Letters of credit	57,173	40,822
Guarantees	112,977	59,071
Currency forward exchange contracts	6,308	20,041
Lease commitments	5,412	10,905
Total	**181,870**	**130,839**

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Notes (Continued)

46. Off balance sheet financial instruments (Continued)

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

Letters of credit commit the Group to make payment to third parties, on production of documents, which are subsequently reimbursed by customers. An acceptance is an undertaking to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented and reimbursement by the customer is almost immediate

Forward foreign exchange contracts are commitments to either purchase or sell a designated financial instrument at a specified future date for a specified price and may be settled in cash or another financial asset. The fair values of the respective currency forwards are carried under financial assets and liabilities held for trading.

47. Contingent liabilities

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has established protocol for dealing with legal claims. The directors use the best available information, including independent external legal opinions, to determine any provisions for losses or disclosures to be made in the financial statements.

The Group entities had several unresolved legal and tax claims arising in the ordinary course of business at the year end. The unresolved tax claims and legal disputes are individually evaluated at the year end for potential losses to the group. Where necessary, the directors seek independent legal advice on the significant unresolved tax claims and legal matters. Based on the information available at the approval of these financial statements, the directors believe the ultimate resolution of the unresolved tax claims and legal proceedings will not have a material effect on the group's operations.

The Company's subsidiary, National Bank of Kenya Limited (NBK or the "bank") is a defendant in a civil case which sought to nullify the Bank's exercise of its statutory right to recover a defaulted loan against the collateral security issued by the loan guarantor. The bank initially successfully defended the claim at the High court but the guarantor appealed against the High Court ruling at the Court of Appeal. The Court of Appeal overturned the High Court decision and awarded the claimant damages of KShs 2.3 billion against the bank. The Bank has filed an application at the Supreme Court of Kenya to appeal against the decision by the Court of Appeal. The Supreme Court had not yet admitted the application to appeal at the date of the board approval of the group financial statements. Based on independent external legal advice, the directors believe that the bank will succeed in reversing the Court of Appeal award at the Supreme Court on the basis of substantive public interest issues, and hence no material liability will crystallise from this matter.

48. Retirement benefit obligations

KCB Pension Fund and Staff Retirement Benefit Scheme

The Group operates a funded defined benefit plan. The Fund closed to new entrants effective 1 June 2006. The Fund is non-contributory with the Group responsible for the cost of benefits accruing. The Fund is established under trust. The Fund assets are invested in a variety of asset classes comprising Government securities, corporate bonds, call and term deposits, investment properties, shares and offshore investments. Old Mutual Asset Managers and Pine Bridge Investments (East Africa) Limited are responsible for the investment of assets.

Characteristics and risks of the Fund

The Fund is registered under irrevocable trust with the Retirement Benefits Authority. The Retirement Benefits Act, 1997 ("the Act") and the Regulations under the Act require the Fund to maintain a funding level of 100%. Where the funding level is below, such deficits are required to be amortized over a period not exceeding 6 years.

- The Fund is managed by a Board of Trustees. The Board is responsible for the overall operation of the Fund including making sure benefits are paid to beneficiaries on time.
- 27.91% of the Fund assets are invested in property assets. The exposure is a concentration risk to the property market for the Fund and, by extension, the Company.

Following the closing of the Fund as of 1 June 2006, some active in-service members opted to transfer their accrued benefits under the Fund to the newly Defined Contribution Plan established by the Company. The Fund therefore comprises mainly of pensioners and deferred pensioners, although some in-service members remain in the Fund.

Some of the main risks relating to the benefits under the Fund are the rates of pension increases and the rates of return earned on the Fund assets. For the in-service members, rates of salary escalation will also have a direct bearing on the benefits paid under the Fund. In addition, the pension benefits are payable for the duration of the life of the pensioners. Therefore, the Fund's post-retirement mortality experience with respect to the pensioners will also have an impact on the liabilities under the Fund.

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For the Year Ended 31 December 2022

Notes (Continued)

48. Retirement benefit obligations (Continued)

KCB Pension Fund and Staff Retirement Benefit Scheme (Continued)

The information below summarizes the scheme assets and liabilities:

Composition of fund assets based on the Investment Manager's reports as of 31 December 2022.

	2022 KShs million		2021 KShs million	
Property	1,804	27.91%	1,851	26.97%
Government securities	3,579	55.37%	883	12.87%
Fixed and term deposits	258	3.99%	3,852	56.13%
Quoted equities	749	11.59%	35	0.51%
Corporate bonds	48	0.74%	-	0.00%
Cash and demand deposits	-	0.00%	93	1.36%
Net current liability	26	0.40%	149	2.17%
Total	**6,464**	**100%**	**6,863**	**100%**

Changes in the present value of the defined benefit obligation over the year:

	2022 KShs million	2021 KShs million
At start of year	7,321	7,207
Current service cost (net of employer contributions)	68	62
Interest cost	903	897
Actuarial (losses)/ gains due to changes in assumptions	(381)	83
Benefits paid	(862)	(928)
At end of year	**7,049**	**7,321**

Changes in the fair value of plan assets over the year

At start of year	(6,863)	(7,030)
Transfers at 1 January 2016 from KCB Group PLC		
Interest income on plan assets	(850)	(881)
Employer contributions	(212)	(215)
Actuarial gains	599	335
Benefits paid	862	928
At end of year	**(6,464)**	**(6,863)**

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Notes (Continued)

48. Retirement benefit obligations (Continued)

KCB Pension Fund and Staff Retirement Benefit Scheme (Continued)

The amounts recognised in the statement of financial position are determined as follows;

Reconciliation of liability in the statement of financial position:

	2022 KShs million	2021 KShs million
Present value of fund obligations	7,049	7,321
Fair value of plan assets	(6,464)	(6,863)
Asset recognised in the statement of financial position	**585**	**458**

The amount recognised in profit and loss for the year are as follows:

	2022 KShs million	2021 KShs million
At start of year	458	177
Net expense recognised in statement of profit and loss	121	78
Employer contribution	(212)	(215)
Amount recognised in other comprehensive income	218	418
At end of year	**585**	**458**

The amount recognized in profit and loss for the year are as follows:

	2022 KShs million	2021 KShs million
Service cost		
Current service cost (employer)	68	62
Total service cost	**68**	**62**
Interest cost		
Interest cost on defined benefit obligation	903	897
Interest income on plan assets	(850)	(881)
Interest on the effect of the asset ceiling	-	-
Net interest cost on balance sheet liability	**53**	**16**
Net included in profit and loss in respect of the scheme	**121**	**78**
Re-measurement (other comprehensive income)		
Actuarial loss – obligation	(381)	83
Return on plan assets (excluding amount in interest cost)	599	335
Change in effect of asset ceiling (excluding amount in interest cost)		-
Amount recognised in other comprehensive income	**218**	**418**

Financial Statements
For the Year Ended 31 December 2022

Notes (Continued)

48. Retirement benefit obligations (Continued)

KCB Pension Fund and Staff Retirement Benefit Scheme (Continued)

The principal actuarial assumptions used are as follows:

Actuarial Assumptions	2022	2021
Discount Rate (% p.a.)	14.00%	13.00%
Future salary increases (% p.a.)	6.00%	6.00%
Future pension increases (% p.a.)	0.00%	0.00%
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	a(55) Ultimate	a(55) Ultimate
Withdrawals (voluntary)	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement age	55 Years	55 Years

Sensitivity Analysis

The results of the actuarial valuation will be more sensitive to changes in the financial assumptions than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount rate used, The Group has relied on our calculations of the duration of the liability. Based on this methodology, the results of our sensitivity analysis are summarized in the table below:

	Current discount rate (14.0% per annum) 2022 KShs million	Discount rate - 1% (13.0% per annum) 2021 KShs million
Present value of obligation	**7,049**	**7,321**

Given a large portion of the liability is in respect of inactive members, the sensitivity of the liability to a change in the salary escalation assumption will not be as significant as a change to the discount rate as it affects only in-service members.

49. Hyperinflation

For the financial year ended 31 December 2022, the directors evaluated and determined the economy of South Sudan to be hyperinflationary. As a result of this, KCB Bank South Sudan Limited, a significant foreign subsidiary of the Group complied with the requirements of IAS 29 - Financial reporting in Hyperinflationary Economies on the individual financial statements for the year ending 31 December 2022. The standard requires significant judgments to be made by the financial statement preparer considering guidelines provided in IAS 29. Consequently, for the individual entity, the financial statements and corresponding figures for previous periods are restated for the changes in the general purchasing power of the functional currency, and as a result are stated in terms of the measuring unit current at the end of the reporting period. The consolidated financial statements have been adjusted to reflect changes in KCB Bank South Sudan as indicated above.

The Directors considered the following factors in determining and concluding that the South Sudan economy was hyperinflationary:

(a) The population's preference to keep wealth in non-monetary assets or a relatively stable foreign currency;

(b) Prices for credit transactions being set at levels to compensate for expected loss of purchasing power during the credit period;

(c) Interest rates and wages are frequently adjusted to compensate the loss of purchasing power; and

(d) The cumulative inflation rate over the past three years exceeding 100%.

The cumulative three years' inflation rate was approximately 98.69% as at 31 December 2022 (2021: 100.29%) in South Sudan. The source of the price indexes used was the International Monetary Fund (IMF).

Notes

KCB Group Plc.

(Incorporated in Kenya under the Companies Act, 2015, Laws of Kenya)
(Registration Number C 9/88)

Notice of The 52nd Annual General Meeting

Notice is hereby given that the 52nd Annual General Meeting of the shareholders of KCB Group Plc ("Company") will be held via electronic communication, on Thursday, 25 May 2023 at 10.00 a.m. when the business set out below will be transacted:

Agenda

1. Constitution of the Meeting

To read the notice convening the meeting and determine if a quorum is present.

2. Ordinary Business

a) Report and Financial Statements for the Year ended 31 December 2022

To receive, consider and, if thought fit, adopt the Audited Consolidated Financial Statements for the year ending 31 December 2022 together with the reports of the Directors, the Group Chairman, the Group Chief Executive Officer, and the Auditor thereon.

b) Dividend

To confirm the interim dividend of KShs. 1.00 per ordinary share paid on 13 January 2023 and to declare a final dividend of KShs. 1.00 per ordinary share, payable, net of withholding tax, on or about 26 May 2023 to shareholders on the Register of Members at the close of business on 6 April 2023.

c) Election of Directors

(a) In accordance with Articles 94, 95 and 96 of the Company's Articles of Association, the following Directors retire by rotation, and being eligible, offer themselves for re-election:

(i) Mr. Ahmed Mahmoud

(ii) Dr. Obuya Bagaka

(iii) C. S. National Treasury

(b) In accordance with Article 101 of the Company's Articles of Association, the following director, having been appointed by the Board to fill in a casual vacancy, retires from the Board and being eligible offers herself for re-election.

(i) Ms. Anuja Pandit

(c) In accordance with Article 101 of the Company's Articles of Association, the following director, having been appointed by the Board to fill in a casual vacancy, and further, having attained the age of 70, retires from the Board and being eligible and having expressed his willingness to continue serving as a director, offers himself for re-election.

(i) Dr. Joseph Kinyua

(d) In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit Committee be elected to continue to serve as members of the said Committee:

(i) Mr. Lawrence Njiru

(ii) Mr. Ahmed Mahmoud

(iii) Dr. Obuya Bagaka

(iv) Mrs. Alice Kirenge

(v) Ms. Anuja Pandit

d) Remuneration of Directors

To receive, consider and, if thought fit, approve the Directors' Remuneration Report and to authorize the Board to fix the remuneration of Directors.

e) Appointment of Auditors

To re-appoint Messrs. PriceWaterhouseCoopers, Certified Public Accountants, as the Auditors of the Company until conclusion of the next Annual General Meeting.

f) Remuneration of the Auditors

To authorize Directors to fix the remuneration of the Auditors.

By Order of the Board

Bonnie Okumu
Company Secretary
3 May 2023

Notes:

1. KCB Group Plc has convened and will conduct its 52nd Annual General Meeting via virtual/electronic means in line with The Companies Act, 2015.

2. Shareholders wishing to participate in the meeting should register for the AGM by doing the following:

   (a). dialling *483*885# for all Kenyan telephone networks and following the various registration prompts; or

   (b). sending an email request to be registered to kcbshares@image.co.ke

   Shareholders with email addresses will receive a registration link via email through which they can use to register.

   To complete the registration process, shareholders will need to have their ID/Passport Numbers which were used to purchase their shares and/or their CDSC Account Number at hand. For assistance shareholders should dial the following helpline number: (+254) 709 170 037/ 709 170 034 from 9:00 a.m. to 5:00 p.m. from Monday to Friday. Any shareholder outside Kenya should dial the helpline number to be assisted to register.

3. Registration for the AGM opens on Thursday, 4 May 2023 at 9.00 a.m. and will close on Tuesday, 23 May 2023 at 10.00 a.m. Shareholders will not be able to register after Tuesday 23 May 2023 at 10.00 a.m.

4. In accordance with Section 283 (3) of the Companies Act, the following documents may be viewed on the Company's website www.kcbgroup.com

   a. a copy of this Notice and the proxy form.

   b. the Company's Annual Report & Audited financial statements for the year ended 31 December 2022.

   The reports may also be accessed upon request by dialling the USSD code above and selecting the reports option. The reports and agenda can also be accessed on the livestream link.

5. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:

   a. sending their written questions by email to kcbshares@image.co.ke; or

   b. shareholders who will have registered to participate in the meeting shall be able to ask questions via SMS by dialling the USSD code above and selecting the option (Ask Question) on the prompts; or

   c. to the extent possible, physically delivering their written questions with a return physical, postal or email address to the registered office of the Company at Kencom House, P. O. Box 48400 – 00100, Nairobi, or to Image Registrars offices at 5th floor, Absa Towers (formerly Barclays Plaza), Loita Street.

   Shareholders must provide their full details (full names, National ID/Passport Number/CDSC Account Number) when submitting their questions and clarifications.

   All questions and clarifications received by the Company by Tuesday, 23 May 2023 at 5:00 pm will be responded to by the directors of the company by 25 May 2023. A full list of all questions received and the answers thereto will be published on the Company's website before the commencement of the General Meeting. Some of the questions will also be answered during the meeting. Shareholders will also have the opportunity of submitting their questions and clarifications during the General Meeting.

6. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company. A proxy form is attached to this Notice and is available on the Company's website via this link: www.kcbgroup.com. Physical copies of the proxy form are also available at the following address: Image Registrars Limited offices, 5th Floor Absa Towers (formerly Barclays Plaza), Loita Street P. O. Box 9287 – 00100. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the proxy form to Image Registrars Limited, or alternatively to the Registered Office of the Company to arrive not later than 10.00 a.m. on Tuesday, 23 May 2023.

   Duly signed proxy forms may also be emailed to kcbshares@image.co.ke in PDF format. A proxy form must be signed by the appointor or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under the Company's common seal or under the hand of an officer or duly authorized attorney of such body corporate.

7. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the AGM. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers, 24 hours prior to the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent one hour before the AGM, reminding duly registered shareholders and proxies that the AGM will begin in an hour's time and providing a link to the live stream.

8. Duly registered shareholders and proxies may follow the proceedings of the AGM using the live stream platform and may access the agenda. Duly registered shareholders and proxies may vote (when prompted) via the USSD prompts.

9. Results of the AGM shall be published on the Company's website within 24 hours following conclusion of the AGM.

   Shareholders are encouraged to continuously monitor the Company's website www.kcbgroup.com for updates relating to the AGM.

KCB Group Plc.
Proxy Form

Group Company Secretary,
KCB Group Plc.,
Kencom House, Moi Avenue,
P. O. Box 48400 – 00100,
Nairobi, Kenya

I/WE.. of..

Being a shareholder of **KCB Group Plc.** hereby appoint .... (see notes 2 and 3) (Name of proxy) of P. O. BOX.. and whose mobile phone number for purposes of registration and voting is .... OR FAILING WHOM, the Chairman of the Meeting in respect of my .... (Number of shares). Please indicate here if you are appointing more than one proxy (including the mobile phone number of such proxy) .... (see note 3) as my/our proxy to attend, represent and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held electronically on Thursday 25 May 2023 at 10.00 am and at any adjournment thereof.

Signed this .... day of 2023

Signature(s)

i) .... ii) ....

I/WE direct my/our proxy to vote on the following resolutions as I/WE have indicated by marking the appropriate box with an **'X'**. If no indication is given, my/our proxy will vote or withhold his or her vote at his or her discretion and I/WE authorize my/our proxy to vote (or withhold his or her vote) as he or she thinks fit in relation to any other matte which is properly put before the Meeting.

Please clearly mark the box below to instruct your proxy how to vote.

Resolution	For	Against	Withheld
Approve the Report and Financial Statements for the year ending 31 December 2022			
Confirm the interim dividend of KShs. 1.00 per ordinary share paid on 13 January 2023 and approve a final dividend of KShs. 1.00 per ordinary share, payable, net of withholding tax, on or about 26 May 2023 to shareholders on the Register of Members at the close of business on 6 April 2023.			
Re-election of Mr. Ahmed Mahmoud			
Re-election of Dr. Obuya Bagaka			
Re-election of C. S. National Treasury			
Appointment of Ms. Anuja Pandit as a Director having been appointed by the Board to fill in a casual vacancy and being eligible offers herself for re-election.			
Appointment of Dr. Joseph Kinyua as a Director having been appointed by the Board to fill in a casual vacancy and further, having attained the age of 70, retires from the Board and being eligible and having expressed his willingness to continue serving as a director for re-election.			
Audit Committee: In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit Committee be elected to continue to serve as members of the said Committee: (i) Mr. Lawrence Njiru, (ii) Mr. Ahmed Mahmoud (iii) Dr. Obuya Bagaka (iv) Mrs. Alice Kirenge and (v) Ms. Anuja Pandit.			
Approve the Directors' Remuneration Report and authorize the Board to fix the remuneration of Directors.			
Re-appoint Messrs. PriceWaterhouseCoopers, Certified Public Accountants, as the Auditors of the Company until conclusion of the next Annual General Meeting and authorize the Directors to fix the remuneration of the Auditors.			

Electronic Communications Preference Form

Please complete in BLOCK CAPITALS

Full name of member(s): ....

....

Address: ....

....

....

CDSC No. (if known) ....

(This can be found on your CDSC Statement)

Mobile Number	

Date: ....

Signature: ....

Please tick **ONE** of the boxes below and return to Image Registrars at P.O. Box 9287 – 00100 Nairobi, 5th Floor, Absa Towers (formerly Barclays Plaza), Loita Street:

Approval of Registration

I/WE approve to register to participate in the virtual Annual General Meeting to be held on 25 May 2023. ☐

Consent for use of the Mobile Number provided

I/WE would give my/our consent for the use of the mobile number provided for purposes of voting at the AGM ☐

Notes:

1. If a member is unable to attend personally, this Proxy Form should be completed, duly signed and returned to reach the Company's share registrar, **Image Registrars Limited**, 5th Floor, Absa Towers (formerly Barclays Plaza), Loita Street, P. O. Box 9287 – 00100 Nairobi or can be scanned and emailed to kcbshares@image.co.ke in PDF format, to arrive not later than **10:00 a.m**. on Tuesday 23 May 2023 i.e. 48 hours before the meeting or any adjournment thereof.

2. In case of a member being a corporate body, the Proxy Form must be under given under its common seal or under the hand of an officer or duly authorized attorney of such corporate body.

3. As a shareholder you are entitled to appoint one or more proxies to exercise all or any of your shareholder rights to attend and to speak and vote on your behalf at the meeting. The appointment of the Chairman of the meeting as proxy has been included for convenience. To appoint any other person as a proxy, delete the words *"the Chairman of the Meeting or"* and insert the full name of your proxy in the space provided. A proxy need not to be a shareholder of the Company.

4. Completion and submission of the Proxy Form will not prevent you from attending the meeting and voting at the meeting in person, in which case any votes cast by your proxy will be excluded.

5. A "vote withheld" option has been included on the Proxy Form. The legal effect of choosing this option on any resolution is that you will be treated as not having voted on the relevant resolution. The number of votes in respect of which votes are withheld will, however, be counted and recorded, but disregarded in calculating the number of votes for or against each resolution.


KCB

FROM A REGIONAL BANK,
TO A REGIONAL POWERHOUSE

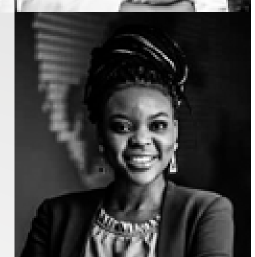
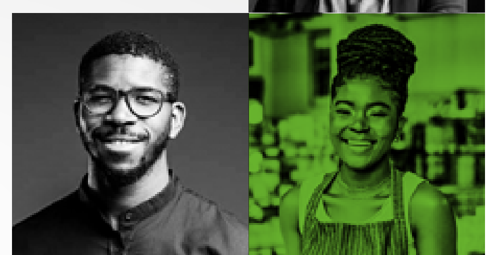
What makes KCB a regional powerhouse? Is it a balance sheet of USD 12.6 Billion and a market capitalization of USD 1 Billion? Is it our presence in 8 Countries through 4 Operating Brands - **KCB, NBK, BPR** & **TMB**?
Or is it 11,098 staff servicing 32 Million customers through a network of 603 branches, 1,270 ATMs, 28,834 agents and merchants?

We are a regional powerhouse because for 127 years, we have been committed to enabling progress – by uplifting families, communities, villages, towns, cities, businesses on the rise and those in the making, nations and economies. We will not stop until we have made an impact in every African's life because we are about people and building a sustainable tomorrow for generations to come.

KCB BANK
National Bank
bpr BANK
TMB

For People.
For Better.

Regulated by the Central Bank of Kenya

KCB

www.kcbgroup.com