CITIBANK N.A.
(KENYA BRANCHES)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2022

CITIBANK N.A.
(KENYA BRANCHES)

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

CONTENTS

Glossary of abbreviations

ALCO	Asset and Liability Management Committee
Basel III	Basel III: International regulatory framework for banks
BCC	Business Credit Committee
Bps	Basis points
BRCC	Business Risk and Controls Committee
CBR	Central Bank Rate
CCC	Country Coordinating Committee
CC	Credit Committee
EAD	Exposure at default
ECL	Expected credit loss
EIR	Effective interest rate
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GDP	Gross domestic product
IAS 1	IAS 1 Presentation of Financial Statements
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IBR	Incremental Borrowing Rate
IFRS	International Financial Reporting Standards
IFRS 3	IFRS 3 Business Combinations
IFRS 7	IFRS 7 Financial Instruments: Disclosures
IFRS 9	IFRS 9 Financial Instruments
IFRS 13	IFRS 13 Fair Value Measurement
LGD	Loss given default
MPC	Monetary Policy Committee
OCI	Other comprehensive income
PD	Probability of default
POCI	Purchased or originated credit-impaired
SICR	Significant Increase of credit risk
SPPI	Solely payments of principal and interest on the principal amount outstanding
SPPT	Solely for Payment of Principal and Interest

CITIBANK N.A.
(KENYA BRANCHES)

PRINCIPAL OFFICERS AND STATUTORY INFORMATION

MANAGEMENT COMMITTEE MEMBERS

M. Mugambi	Managing Director
P. Njiiri	
N. Njoroge	
M. Mwaura	
L. Muturi	
G. Wakaria	
J. Keru	
A. Akoko	Resigned 23 December 2022
T. Okeyo	
S. Sawe	
W. Wachira	
P. Kariuki	
G. Ng'ang'a	Appointed 1 May 2022
O. Mwangolo	Appointed 1 May 2022
A. Matu	Appointed 19 September 2022

HEAD OFFICE
Citibank House
Upper Hill Road
Upper Hill
P.O. Box 30711
00100 Nairobi GPO

BRANCHES
Citibank House
Upper Hill Road
Upper Hill
P.O. Box 30711
00100 Nairobi GPO

Citibank Mombasa Branch
Nkrumah Road
PO Box 83615
Mombasa

ADVOCATES
Njoroge Regeru & Company, Advocates
Arbor House, Arboretum Drive
P.O. Box 46971
00100 Nairobi GPO

Hamilton Harrison & Mathews Advocates
1st Floor, Delta Office Suites, Block A
Off Waiyaki Way, Muthangari
P.O. Box 30333, 00100 Nairobi GPO

Oraro & Company Advocates
6th Floor, ACK Annex Garden House
First Ngong Avenue
P.O. Box 51236 - 00200
Nairobi

Anjarwalla & Khanna Advocates
ALN House, Eldama Ravine Close,
Off Eldama Ravine Road, Westlands
P.O. Box 200 - 00606, Sarit Centre
Nairobi

Kaplan & Stratton
Williamson House, 4th Ngong Avenue
P.O. Box 40111
00100 Nairobi GPO

AUDITOR
KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
P.O. Box 40612
00100 Nairobi GPO

CITIBANK N.A.
(KENYA BRANCHES)

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2022

Management is responsible for the preparation and presentation of the financial statements of Citibank N.A. (Kenya Branches) set out on pages 9 to 80 which comprise the statement of financial position at 31 December 2022 and the statement of profit or loss and comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Management's responsibility includes: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances; preparation and presentation of financial statements in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, Management is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank as at the end of the financial year and of the profit and loss of the Bank for that year. It also requires Management to ensure the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank and its profit or loss.

Management accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with IFRS Standards and in the manner required by the Kenyan Companies Act, 2015. Management is of the opinion that the financial statements give a true and fair view of the financial position of the Bank and its profit and loss.

Management further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Management has made an assessment of the Bank ability to continue as a going concern and have no reason to believe the branches will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the management on 31 March 2023.

Martin Mugambi
Managing Director

John Keru
Chief Financial Officer

CITIBANK N.A.
(KENYA BRANCHES)

MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

1. Background of Citibank

Citibank N.A. is a corporate Bank in Kenya and is part of the global Citigroup (Citi) franchise. Citibank Kenya is the Head Office of Citi East Africa cluster which covers banking entities in Kenya, Uganda, Tanzania and Zambia. Citi's core business is corporate and investment banking and currently offers the following services among others; investment banking, advisory services, foreign exchange, public sector financing, trade financing, cash management and internet banking. Citi offers these banking services to governments and parastatals, global multinationals and top-tier corporates across a number of industries including aviation, shipping, power, energy, manufacturing and infrastructure.

Citi first entered the Kenyan market under the name "The First National City Bank of New York" and has been operating for 48 years, since 1974. Citi Kenya maintains two branches; one in Nairobi and one in Mombasa, and directly employs 192 (31 December 2021-151) staff. In addition to the two branches, Citi offers services to all its corporate and institutional clients through several partnerships across the country, providing various branch access points through partnerships with local financial institutions.

2. Business environment

Real GDP is projected at 5.6% for 2022 as the effects of the Covid-19 pandemic recede but new challenges like the Russia-Ukraine conflict and elevated global inflation emerged. Despite this, Kenya continues to display resilience with a projected growth of 6.1% in 2023.

Overall inflation increased to 9.1% in December 2022 (5.7% December 2021) on the back of higher food prices. The Monetary Policy Committee (MPC) has taken measures to tighten financial conditions with a view to anchoring inflation expectations and has raised the Central Bank Rate (CBR) by 175bps from 7.0% to 8.75% at the end of 2022.

Fiscal policy continues to pursue growth friendly fiscal consolidation to preserve debt sustainability. As such, fiscal deficit is projected to decline from 5.7% of GDP in FY 2022/23 to 4.4% of GDP in FY 2023/24.

The current account deficit was generally stable at 5.2% of GDP in the 12 months to November 2022 compared to 5.4 percent of GDP in November 2021 on account of improved receipts from service exports and resilient remittances. Foreign exchange reserves were at $7.4bn as at December 2022 which represented 4.2 months of import cover.

Growth in private sector credit increased to 12.5% in 2022 compared to 8.6% in 2021.

The COVID-19 pandemic had severely impacted global health, financial markets, consumer and business spending, and economic conditions. Just as this threat was receding new challenges emerged in the form of the Russia-Ukraine conflict, elevated global inflation, the still lingering effects of COVID-19 pandemic, and persistent supply chain disruption. This and other emerging crisis have created a world where multiple crisis need to be managed concurrently and will dictate the pace of growth and market conditions into the foreseeable future.

3. Financial performance

Citibank N.A. Kenya's performance in 2022 had a pre-tax profit of KShs 9.9 billion (2021- KShs 5.8 billion) and net interest income of KShs 6.7 billion (2021- KShs 5.4 billion), and non-interest income of KShs 7.4 billion (2021- KShs 4.0 billion). Net interest income was largely attributed to exposures to the Government and corporate borrowers, respectively KShs 4.1 billion (2021- KShs 3.8 billion) and KShs 4.3 billion (2021- KShs 2.2 billion) respectively. Non-interest income was mainly from foreign exchange trade income at KShs 5.6 billion (2021- KShs 2.0 billion) and fees and commissions at KShs 1.0 billion (2021- KShs 1.0 billion). The profit after tax in 2022 was at KShs 5.9 billion compared to 2021 at KShs 3.5 billion. The operating expenses for the bank were at KShs 4.3 billion in 2021 compared to KShs 3.5 billion in 2021.

The Management is confident that the Bank will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore, have prepared the financial statements on a going concern basis.

Total assets increased from KShs 130.9 billion in 2021 to KShs 139.8 billion in 2022. The Capital adequacy ratios remained strong, well above the regulatory minimum requirements. In 2022, the bank maintained a low level of non-performing loans, with the gross non-performing loans and advances at 1.6 billion in December 2022 close to KShs 1.0 billion in December 2021.

4. Prospects for 2023

In 2023, Citibank intends to focus on current ongoing and new projects which are in line with the prospects in the Kenyan economy while also focusing on innovation and risk reduction. The outlook is positive despite potential for some global and local headwinds. Opportunities in 2023 are: Optimization of our global network, customer centricity, maintain a pristine risk & controls environment and increase flow rate of large episodic transactions. Whilst doing these, we'll also focus on development of our human capital to support best culture to achieve our goals.

The Country Coordinating Committee (CCC) is Citibank Kenya's Board equivalent and is the primary governance committee of the Bank. The Committee meets once a month to discuss specific matters and during the year ended 31 December 2022, the CCC met every month as scheduled. Evaluations of the members of the Country Coordinating Committee have been completed and submitted to the Central Bank of Kenya (CBK).

Name	Position	% of meetings attended
M.Mugambi	Chair, Citi Country Officer	92%
P. Njiiri	Senior Country Operations Officer	92%
J. Keru	Chief Financial Officer	100%
A .Akoko	Human Resources Head	92%
L. Muturi	Credit Risk Head	100%
A.Matu	Compliance Officer	92%
N. Njoroge	General Counsel	92%
G.Ng'ang'a	Treasurer	92%
G. Wakaria	Treasury and Trade Solutions Head	92%
O. Mwongolo	Corporate and Investment Bank Head	83%
M. Mwaura	Public Affairs Officer	83%
T. Okeyo	Internal Auditor	100%
W.Wachira	Financial Institutions & Hub Managed Countries Head	92%
S. Sawe*	Global Subsidiaries Group Head	67%
P.Kariuki	Franchise Governance Officer	100%
*Maternity Leave		

5. Relevant audit information

Management in office at the date of this report confirm that:

(i) There is no relevant audit information of which the Bank's auditor is unaware; and
(ii) Management has taken all the steps that they ought to have taken as a management so as to be aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

6. Approval of the financial statements

The financial statements were approved and authorized for issue by the management on 31 March 2023.

Martin Mugambi	John Keru
Managing Director	*Chief Financial Officer*

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612 00100 GPO
Nairobi, Kenya

Telephone +254-20-280600
Email info@kpmg.co.ke
Website www.kpmg.com/eastafrica

INDEPENDENT AUDITOR'S REPORT
TO MANAGEMENT OF CITIBANK N.A. (KENYA BRANCHES)

Report on the audit of financial statements

Opinion

We have audited the financial statements of Citibank N.A. (the "Bank") set out on pages 9 to 80 which comprise the statement of financial position of the Bank at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the 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 Citibank N.A. (Kenya Branches) at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA *Code*), together with the ethical requirements that are relevant to our audit of financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other information

Management are responsible for the other information. The other information comprises the information included in the Citibank N.A. (Kenya branches) *Annual Report and Financial Statements for the year ended 31 December 2022,* but does not include the financial statements and our auditors report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, then we are required to report that fact. We have nothing to report in this regard.

KPMG

INDEPENDENT AUDITOR'S REPORT

TO MANAGEMENT OF CITIBANK N.A. (KENYA BRANCHES) (CONTINUED)

Report on the audit of financial statements (Continued)

Responsibilities of management for the financial statements

Management are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS Standards and Kenyan Companies Act, 2015, and for such internal controls as the management determine 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 management are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 judgment and maintain professional scepticism throughout the audit. We also:

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

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

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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

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

KPMG

INDEPENDENT AUDITOR'S REPORT
TO MANAGEMENT OF CITIBANK N.A. (KENYA BRANCHES) (CONTINUED)

Report on the audit of financial statements (Continued)

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

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

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that in our opinion the information given in the report of the management on pages 3 to 5 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Dr. Alexander Mbai – Practicing Certificate No P/2172.

For and on behalf of:

KPMG Kenya
Certified Public Accountants
Waiyaki Way
P.O Box 40612 – 00100
Nairobi

Date: 31 March 2023

CITIBANK N.A.
(KENYA BRANCHES)

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 KShs '000	2021 KShs '000
Interest income	7	8,735,997	6,556,458
Interest expense	8	(1,488,775)	(1,303,455)
Net interest income		**7,247,222**	**5,253,003**
(Net impairment losses on loans and advances) net of recoveries	18(c)	(582,476)	167,996
Net interest income after impairment losses on loans and advances		**6,664,746**	**5,420,999**
Non interest income	9	7,438,542	3,961,173
Non interest expenses	10	(4,249,526)	(3,543,175)
Profit before taxation	11	**9,853,762**	**5,838,997**
Income tax expense	12	(3,959,907)	(2,346,772)
Profit after taxation		**5,893,855**	**3,492,225**
Other comprehensive income			
Change in FVOCI investments		(80,211)	(23,023)
Deferred tax on change in FVOCI investments		30,078	8,633
Total other comprehensive income for the year		**(50,133)**	**(14,390)**
Total comprehensive income for the year		**5,843,722**	**3,477,835**

The notes set out on pages 14 to 80 form an integral part of these financial statements.

CITIBANK N.A.
(KENYA BRANCHES)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	2022 KShs '000	2021 KShs '000
ASSETS			
Cash and balances with Central Bank of Kenya	13	18,941,503	12,021,083
FVOCI Instruments	14	50,294,850	41,380,841
Derivative instruments	15	128,603	113,724
Placements with other banks	16	175	272
Balances due from foreign branches	17	17,156,122	21,460,651
Loans and advances to customers (net)	18(a)	50,635,020	53,031,122
Other assets	19	1,503,012	1,187,148
Property and equipment	20	549,636	601,406
Tax recoverable	12(c)	-	814,470
Deferred tax asset	21	618,144	329,346
TOTAL ASSETS		**139,827,065**	**130,940,063**
LIABILITIES AND EQUITY			
LIABILITIES			
Balance due to other banks and banking institutions	22	2,422,432	8,348,701
Derivative instruments	15	49	43,312
Customer deposits	23	110,039,790	98,429,798
Other liabilities	24(a)	1,553,276	1,520,495
Lease liabilities	24(b)	50,622	61,596
Tax payable	12(c)	865,991	-
TOTAL LIABILITIES		**114,932,160**	**108,403,902**
EQUITY			
Assigned capital	25(a)	4,582,975	4,582,975
Retained earnings		20,141,739	17,126,770
Fair value reserve	25(b)	42,182	92,315
Statutory credit risk reserve	25(c)	44,698	658,037
Equity compensation reserve	25(d)	83,311	76,064
TOTAL EQUITY		**24,894,905**	**22,536,161**
TOTAL LIABILITIES AND EQUITY		**139,827,065**	**130,940,063**

The financial statements set out on pages 9 to 80 were approved and authorised for issue by Branch Management on 31 March 2023.

Martin Mugambi
Managing Director

John Keru
Chief Financial Officer

The notes set out on pages 14 to 80 form an integral part of these financial statements

CITIBANK N.A.
(KENYA BRANCHES)

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

2022	Assigned capital KShs'000	Retained earnings KShs'000	Fair value reserve KShs'000	Statutory credit risk reserve KShs'000	Equity compensation reserve KShs'000	Total KShs'000
As at January 2022	**4,582,975**	**17,126,770**	**92,315**	**658,037**	**76,064**	**22,536,161**
Total comprehensive income						
Profit for the year	-	5,893,855	-	-	-	5,893,855
Other comprehensive income						
Change in FVOCI investments	-	-	(80,211)	-	-	(80,211)
Deferred tax on change in FVOCI investments	-	-	30,078	-	-	30,078
Transfer from statutory credit risk reserve	-	613,339	-	(613,339)	-	-
Total other comprehensive income	**-**	**613,339**	**(50,133)**	**(613,339)**	**-**	**(50,133)**
Total comprehensive income	**-**	**6,507,194**	**(50,133)**	**(613,339)**	**-**	**5,843,722**
Transactions with owners recorded directly in equity						
Increase in equity awards	-	-	-	-	7,247	7,247
Repatriation of profits	-	(3,492,225)	-	-	-	(3,492,225)
Total transactions with owners for the year recorded directly in equity	**-**	**(3,492,225)**	**-**	**-**	**7,247**	**(3,484,978)**
At 31 December 2022	**4,582,975**	**20,141,739**	**42,182**	**44,698**	**83,311**	**24,894,905**

The notes set out on pages 14 to 80 form an integral part of these financial statements.

CITIBANK N.A.
(KENYA BRANCHES)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

2021	Assigned capital KShs'000	Retained earnings KShs'000	Fair value reserve KShs'000	Statutory credit risk reserve KShs'000	Equity compensati on reserve KShs'000	Total KShs'000
As at January 2021	**4,582,975**	**16,959,174**	**106,705**	**424,102**	**61,355**	**22,134,311**
Total comprehensive income						
Profit for the year	-	3,492,225	-	-	-	3,492,225
Other comprehensive income						
Change in FVOCI investments	-	-	(23,023)	-	-	(23,023)
Deferred tax on change in FVOCI investments	-	-	8,633	-	-	8,633
Transfer from statutory credit risk reserve	-	(233,935)	-	233,935	-	-
Total other comprehensive income	-	**(233,935)**	-	**233,935**	-	-
Total comprehensive income	-	**3,258,290**	**(14,390)**	**233,935**	-	**3,477,835**
Transactions with owners recorded directly in equity						
Increase in equity awards	-	-	-	-	14,709	14,709
Repatriation of profits	-	(3,090,694)	-	-	-	(3,090,694)
Total transactions with owners for the year recorded directly in equity	-	**(3,090,694)**	-	-	**14,709**	**(3,075,985)**
At 31 December 2021	**4,582,975**	**17,126,770**	**92,315**	**658,037**	**76,064**	**22,536,161**

The notes set out on pages 14 to 80 form an integral part of these financial statements.

CITIBANK N.A.
(KENYA BRANCHES)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 KShs '000	2021 KShs '000
Net cash flows from operating activities	26(a)	**11,679,817**	**11,729,402**
Cashflows from investing activities			
Purchase of property and equipment	20	(75,493)	(60,886)
Net cash utilised in investing activities		**(75,493)**	**(60,886)**
Cashflows from financing activities			
Payment of lease liabilities	27(iii)	(14,508)	(13,005)
Repatriation of profits		(3,492,225)	(3,090,694)
Net cash utilised in financing activities		**(3,506,733)**	**(3,103,699)**
Increase in cash and cash equivalents	**26(b)**	**8,097,591**	**8,564,817**
Cash at the start of the year	26(b)	20,967,169	12,402,352
Cash at the end of the year	**26(b)**	**29,064,760**	**20,967,169**

The notes set out on pages 14 to 80 form an integral part of these financial statements.

1 GENERAL INFORMATION

The Bank is a branch of Citibank N.A, a national banking association formed under the laws of the United States of America. The Bank is licensed under the Banking Act (chapter 488). The address of its registered office is as follows:

Citibank House
Upper Hill Road
P.O.Box 30711 00100 Nairobi GPO

2 BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in the manner required by the Kenyan Companies Act, 2015.

For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account is presented by the statement of profit or loss and other comprehensive income in these financial statements.

(b) Basis of measurement

The financial statements set out on pages 9 to 84 have been prepared under the historical cost basis of accounting except for the following:

— derivative financial instruments are measured at fair value
— financial instruments at fair value through profit or loss are measured at fair value
— Fair Value Through Other Comprehensive Income financial assets are measured at fair value.
— Share based payments are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Kenya shillings (KShs), which is the bank's functional currency. Except as indicated, financial information presented in Kenya shillings has been rounded to the nearest thousand.

Items included in the financial statements are measured using the currency of primary economic environment in which the entity operates i.e. Kenya shillings.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

2 BASIS OF PREPARATION (Continued)

(d) Use of estimates and judgments (continued)

The estimates and assumptions are based on managements' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is described in Note 5.

3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements as set out below have been applied consistently to all periods presented in the financial statements.

(a) Revenue recognition

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

(i) Interest income and expense

Interest income and expenses are recognised in the profit or loss for all interest bearing instruments on an accrual basis using the effective interest method.

Income from loans and advances to customers, placements with other banks and Investments in government securities is recognised in profit or loss using the effective interest rate 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 Bank estimates future cash flows considering all contractual terms of the financial instrument, but not the expected credit loss (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Revenue recognition (continued)

(i) Interest income and expense - continued

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.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or financial liability. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or 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.

For financial assets that were credit-impaired on initial recognition, purchased originated credit impaired (POCI) assets, 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.

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.

(ii) Fees and commission income

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Revenue recognition (continued)

(ii) Fees and commission income - continued

A contract with a customer that results in a recognised financial instrument in the Bank'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 Bank 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.

(iii) 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.

(iv) Net income from other financial instruments at fair value

Net income from other financial instruments at fair value relates to derivatives held for risk management purposes and includes all realised and unrealised fair value changes and foreign exchange differences.

(b) Financial instruments

(i) Introduction

IFRS 9 - Financial Instruments includes a model for classification and measurement of financial assets, a forward-looking 'expected loss' impairment model for debt instruments and a substantially reformed approach to hedge accounting.

Classification and measurement

From a classification and measurement perspective, the new standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of:

(i) the entity's business model for managing the assets (and whether collecting cash flows, selling financial assets, or both are integral to the business model), and
(ii) the instruments' contractual cash flow characteristics (whether the contractual cash flows are solely payments of principal and interest (SPPI)).

The IFRS 9 measurement categories include: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 also allows entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(i) Introduction - continued

Classification and measurement - continued

Under IFRS 9, the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL and such movements are now presented in OCI (instead of P&L) with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise from presentation in OCI, in which case the own credit gains or losses continue to presented in P&L.

Impairment

IFRS 9 introduces an expected credit loss (ECL) impairment model. Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as FVOCI, and off-balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37, Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

(ii) Recognition

The Bank initially recognizes loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit and loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provision of the instrument.

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method except where the Bank designates liabilities at fair value through profit and loss.

(iii) Financial assets and financial labilities

Classification and measurement

Financial assets - Derivatives and Equity instruments

Under IFRS 9, derivatives and in-scope equity instruments are measured at fair value, with changes reflected through the profit and loss account (FVTPL). Exceptions can only apply if the derivative is part of a hedge accounting programme.

The Bank measures all equity instruments in scope of IFRS 9 at FVTPL.

3 **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(b) Financial instruments (continued)

(iii) Financial assets and financial labilities - continued

Classification and measurement - continued

Financial assets - Debt Instruments

Under IFRS 9, the following primary classification and measurement categories exist for financial assets-debt instruments:

- Amortized cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value though profit or loss (FVTPL)

In addition, IFRS 9 provides special designation options for financial assets-debt instruments that are either measured at 'amortized cost' or 'FVOCI'. An entity has an option to designate such instruments at FVTPL only where this designation eliminates or significantly reduces an accounting mismatch.

The following paragraphs explain the classification criteria for the 3 categories in more detail.

Amortized Cost

A financial asset-debt instrument shall be classified and subsequently measured at amortized cost (unless designated under Fair Value Option) only if both of the following conditions are met:

(a) Business Model test: the financial asset--debt instrument is held in a business which has a business model whose objective is to hold assets in order to collect
(b) contractual cash flows; and
(c) SPPI test: the contractual terms of the financial asset-debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

FVOCI

A financial asset shall be classified and measured at FVOCI (unless designated FVO) if both of the following conditions are met:

(a) Business Model test: the financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: and
(b) SPPI test: the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

FVTPL

Any financial instrument that does not fall into either of the above categories shall be classified and measured at fair value through profit and loss. For example, where the asset is not held within a business model whose objective is to hold to collect the contractual cash flows or within a business model whose objective is to both collect the cash flows and to sell the assets, then the asset will be classified as FVTPL.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(iii) Financial assets and financial labilities - continued

Classification and measurement - continued

Financial assets - Debt Instruments - continued

FVTPL - continued

Moreover, any instrument for which the contractual cash flow characteristics do not comprise solely payments of principal and interest (that is, they fail the SPPI test) must be classified in the FVTPL category.

Business Model Assessment

The Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Bank's business model does not depend on management's intentions for an individual instrument (i.e., it is not an instrument-by-instrument assessment). This assessment is performed at a higher level of aggregation. The level of aggregation is at a level which is reviewed by key management personnel, enabling them to make strategic decisions for the business. The Bank has more than one business model for managing its financial instruments.

The assessment of the business model requires judgment based on facts and circumstances, considering quantitative factors and qualitative factors.

Financial assets - Debt Instruments

The Bank considers all relevant evidence that is available at the date of the assessment. Such relevant evidence includes, but is not limited to:

(a) How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;
(b) 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
(c) How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
(d) The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.
(e) Assessment of whether the contractual cash flows re solely payments of principal and interest

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(iii) Financial assets and financial labilities - continued

Classification and measurement - continued

Financial assets - Debt Instruments - continued

If an instrument is held in either a hold to collect or a or hold to collect and sell business model, then an assessment to determine whether contractual cash flows are solely payments of principal and interest on the principal outstanding (SPPI) is required to determine classification. For SPPI, interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding during a period of time. It can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time and a profit margin that is consistent with a basic lending arrangement. Other contractual features that result in cash flows that are not payments of principal and interest result in the instrument being measured at FVTPL.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that meet the SPPI criteria.

The contractual cash flow test must be performed at initial recognition of the financial asset and, if applicable, as at the date of any subsequent changes to the contractual provisions of the instrument.

Financial liabilities

For financial liabilities there are two measurement categories: amortized cost and fair value through profit and loss (including a fair value option category).

The Bank separates derivatives embedded in financial liabilities where they are not closely related to the host contract.
The Bank designates financial liabilities at fair value through profit or loss if one of the following exist:

- The liability is managed and performance evaluated on a fair value basis;
- Electing fair value will eliminate or reduce an accounting mismatch; or
- The contract contains one or more embedded derivatives

For financial liabilities designated at fair value through profit or loss, fair value changes are presented as follows:

- The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability must be recorded in OCI, and
- The remaining amount of the change in the fair value of the liability is recorded in P&L.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(iii) Financial assets and financial labilities - continued

Financial liabilities - continued

Upon early extinguishment (e.g., liability is repurchased before maturity), changes in own credit previously recorded in OCI will not be recycled to P&L. The OCI balance is reclassified directly to retained earnings.

Reclassifications

Financial asset classification is determined at initial recognition and reclassifications are expected to be extremely rare. A financial asset can only be reclassified if the business model for managing the financial asset changes.

Reclassification of financial liabilities is not permitted. Reclassification of financial instruments designated under FVO or FVOCl is also not permitted.

Modifications Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the Bank shall recalculate the gross carrying amount of the financial asset and shall recognize a modification gain or loss in profit or loss.

As the Bank classifies a financial asset at initial recognition on the basis of the contractual terms over the life of the instrument, reclassification on the basis of a financial asset's contractual cash flows is not permitted, unless the asset is sufficiently modified that it is derecognized.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

Impairment

The IFRS 9 impairment standard applies to any debt instruments measured at amortised cost or at fair value through other comprehensive income and also to off balance sheet loan commitments and financial guarantees.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(iii) Financial assets and financial labilities - continued

Expected credit loss impairment model

Credit loss allowances will be measured on each reporting date according to a three-Stage expected credit loss impairment model under which each financial asset is classified in one of the stages below:

— Stage 1 - From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults expected over the next 12 months. Interest is calculated based on the gross carrying amount of the asset.
— Stage 2 - Following a significant increase in credit risk relative to the risk at initial recognition of the financial asset, a loss allowance is recognized equal to the full credit losses expected over the remaining life of the asset. Interest is calculated based on the gross carrying amount of the asset.
— The credit losses for financial assets in Stage 1 and Stage 2 are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive).
— Stage 3 - When a financial asset is considered to be credit-impaired, a loss allowance equal to the full lifetime expected credit losses will be recognized. Credit losses are measured as the difference between the gross carrying amount and the present value of estimated future cash flows. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

Evidence that a financial asset is impaired includes observable data that comes to the attention of the Bank such as:

— Significant financial difficulty of the issuer or obligor;
— A breach of contract, such as a default or delinquency in interest or principal payments;
— It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
— The disappearance of an active market for that financial asset because of financial difficulties; or
— Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
— adverse changes in the payment status of borrowers in the portfolio; and
— national or local economic conditions that correlate with defaults on the assets in the portfolio.

Loans are written off when there is no realistic probability of recovery.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(iii) Financial assets and financial labilities - continued

Expected credit loss impairment model - continued

The estimation of an expected credit loss (ECL) is required to be unbiased and probability weighted, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The estimate also considers the time value of money.

The measurement of an ECL is primarily determined by an assessment of the financial asset's probability of default (PD), loss given default (LGD) and exposure at default (EAD) where the cash shortfalls are discounted to the reporting date. For a financial asset in Stage 1, the Bank will utilise a 12-month PD, whereas a financial asset within Stage 2 and Stage 3 will utilise a lifetime PD in order to estimate an impairment allowance.

Wholesale Classifiably Managed Exposures
An impairment allowance will be estimated for Corporate loans utilising sophisticated models depending on the relative size, quality and complexity of the portfolios

Staging
Financial assets can move in both directions through the Stages of the IFRS 9 impairment model depending on whether the assessment of whether there is a significant increase of credit risk since initial recognition or whether the asset is credit impaired subsequently changes.

In order to determine the ECL reporting stage for an obligation, the Bank will check whether the asset is already impaired (Stage 3) or not (Stage 1 and 2).

Stage 2 will be determined by the existence of a significant credit deterioration (or credit improvement) compared with the credit rating at initial recognition. Stage 1 assets do not have significant credit deterioration compared with that at initial recognition. All newly acquired or originated financial assets that are not purchased or originated credit impaired (POCI) are recognised in Stage 1 initially.

The existence of a (statistically) significant deterioration/improvement is combined with the materiality of the probability of default to determine whether a transfer in stages is required. Further, the Bank will not rebut the presumption that exposures 30 days past due are deemed to have incurred a significant increase in credit risk.

Additional qualitative reviews are also be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(iii) Financial assets and financial labilities - continued

Expected credit loss impairment model - continued

Staging
Changes in the required credit loss allowance, including the impact of movements between Stage 1 (12-month expected credit losses) and Stage 2 (lifetime expected credit losses), are recorded in profit or loss as an adjustment of the provision for credit losses.

Expected life
When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk, including possible drawdowns and the expected maturity of the financial asset. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Stage 3 definition of default
As mentioned above, to determine whether an instrument should move to a lifetime ECL, the change in the risk of a default occurring over the expected life of Bank applies a default definition that is consistent with that used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. The definition of default used for this purpose is applied consistently to all financial instruments unless information becomes available that demonstrates another default definition is more appropriate for a particular financial instrument.

Forward looking information and multiple economic scenarios
Estimates must consider information about past events, current conditions and reasonable and supportable forecasts around future events and economic conditions. The application of forward-looking information (FLI) requires significant judgment. The Bank has developed models that include multiple economic scenarios that consider the variability and uncertainty in expected losses including factors such as Gross Domestic Product growth rates and unemployment rates, provided by the economists in Citi's Global Country Risk Management (GCRM).

These estimates are based on portfolio data that reflect the current risk attributes of obligors and debt instruments combined with loss projections derived from the rating migration, PD and loss models built for estimating stress credit losses for wholesale portfolios. As mentioned above, these models have incorporated specifically developed components to make the estimates compliant with IFRS 9.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(iii) Financial assets and financial labilities - continued

Expected credit loss impairment model - continued

Forward looking information and multiple economic scenarios - continued
The PD, LGD and Credit Conversion Factor (CCF) models are calibrated to the observed historical patterns of defaults and losses over several years and linked to economic drivers. The model reflects different loss likelihood and loss severity as a function of different economic forecasts.

The Bank does not use the best case or worst case scenario, but assesses a representative number of scenarios (at least 3 when applying a sophisticated approach and where multiple scenarios are deemed to have a material non-linear impact) and probability weights these scenarios to determine the ECL.

Delinquency Managed Exposures

In particular, for Corporate portfolios, where the Bank does not have access to detailed historical information and/or loss experience, the Bank will adopt a simplified approach using backstops and other qualitative information specific to each portfolio.

Other financial assets simplified approaches

For other financial assets, being short term and simple in nature, the Bank will apply a simplified measurement approach that may differ from what is described above. This approach leverages existing models currently used globally for stress testing and regulatory capital reporting purposes, but incorporates specifically developed components to make the estimates compliant with IFRS 9.

Presentation of the allowance of ECL in the statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the asset
- Loan commitments and financial guarantee contracts: as a provision
- Debt instruments measured at FVOCI: as the carrying amount of these financial assets is at fair value, no loss allowance is recognised in the statement of financial position, however, the loss allowance is disclosed in note 4(a) and is recognised in the fair value reserve.

Derecognition

The bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the bank is recognised as a separate asset or liability.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(iii) Financial assets and financial labilities - continued

Derecognition - continued

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position,but retains either all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Fair value measurement principles

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
If there is no quoted price in an active market, then the bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(iii) Financial assets and financial labilities - continued

Fair value measurement principles - continued

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Statutory credit risk reserve

Where impairment losses required by regulations exceed those computed under IFRS, the excess is recognised as a statutory credit risk reserve and is accounted for as an appropriation of retained earnings. The statutory credit risk reserve is non-distributable.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(c) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, the cash and cash equivalents include balances with the Central Bank of Kenya which are available to finance the bank's day to day operations, net balances from banking institutions, and investments with maturities of three months or less from the date of acquisition.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Cash and cash equivalents (continued)

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Cash and cash equivalents are highly liquid assets, subject to insignificant risk of changes in their fair value and are used by the bank in the management of short-term commitments.

(d) Derivative financial instruments

The Bank enters into financial instruments for trading purposes with third parties to hedge their exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques. The gain or loss on re-measurement to fair value is recognised immediately in the profit and loss. The main derivative financial instruments in use by the bank are as follows:

(i) Currency forwards

Foreign exchange forward contracts are agreements to buy and sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

The fair value of forward exchange contracts is the present value of the mark to market adjustment at the reporting date.

(ii) Currency options

A currency option is an agreement between two counter-parties, giving the option buyer (option holder) the right, but not the obligation, either to buy or to sell a quantity of currency at a specified rate, on or before a specified date in the future.

All currency options concluded with third parties are immediately offset by an opposite option transacted with another Citibank affiliate under exactly the same parameters (date, notional amount, currency and strike price). The bank receives a premium for the transaction. Thus no fair value of outstanding options is carried on the bank's statement of financial position.

(e) Transactions in foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction or valuation where item are measured.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Transactions in foreign currencies (continued)

Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the reporting date other than the forwards contracts which are carried at prevailing forward rates. Resulting exchange differences are recognised in the profit and loss for the year. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the transaction date.

Translation differences related to 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, while those classified as available for sale are included in other comprehensive income.

(f) Employee benefits

(i) Retirement benefit schemes

The majority of the bank's employees are eligible for retirement benefits under a defined contribution plan. Contributions to the defined contribution plan are charged to the profit or loss as incurred.

The employees and the Bank also contribute to the NSSF, a national retirement scheme. Contributions are determined by local statutes and the Bank's contributions are charged to the profit or loss in the year to which they relate.

(ii) Share based payments

Certain categories of senior management are awarded ordinary shares in Citigroup Inc. (the ultimate holding bank) based on their performance. The shares vest over a period of four years. The stock awards are recognised in the profit or loss on the award date at the market value of the shares on the award date. As the awards are categorised as equity-settled, no adjustment is made for fair value changes until the settlement date. The expense is recognised in profit or loss as it vests, with a corresponding entry to the equity compensation reserve.

(iii) Short term benefits

Short term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expensed to be paid under short term cash bonus.

(iv) Termination benefits

Termination benefits are recognised as an expense when the bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Taxation

Income tax expense comprises current tax and change in deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted at the reporting date, and any adjustment to tax payable or recoverable in respect of the previous year.

The amount of current tax payable or recoverable is the best estimate of the tax amount that reflects uncertainty related to income taxes if any.

Deferred tax is recognised on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

Deferred tax is calculated on the basis of the tax rates currently enacted. A deferred 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 utilised. Deferred 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 realised.

(h) Property and equipment

Items of buildings, equipment, furniture and fittings and motor vehicles are stated at cost, less accumulated depreciation and impairment losses. Depreciation is charged on the assets on a straight-line basis to allocate the cost to their residual values over useful lives estimated as follows:

Buildings	Over the period of the lease
Computer equipment and computer software	20% to 331/3% per annum.
Furniture and equipment	10% to 20% per annum.
Motor vehicles	25% to 29% per annum.

The residual values of the assets are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recognised in the profit or loss in the year in which they arise.

(i) Intangible assets

The costs incurred to acquire and bring to use specific computer software licences are capitalised. The costs are amortised on a straight-line basis over the expected useful lives, from the date it is available for use, not exceeding three years.

Computer development costs that are directly associated with the production of identifiable and unique software products that will probably generate economic benefits in excess of its costs are capitalised. The costs are amortised on a straight-line basis over the expected useful lives, from the date that it is available for use, not exceeding three years.

Costs associated with maintaining software are recognised as an expense as incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leases

At inception of a lease contract, the Bank 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 of time in exchange for considerable. The accounting principles require that a lessee records a right-of-use asset and a lease liability for both operating and financing leases. The lease liability is measured at the present value of the future lease payments.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank 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 any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. 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 Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of 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 Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leases (continued)

(i) As a lessee - continued

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 Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank 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.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.
When the Bank 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 Bank 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 Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in IFRS 16 to the net investment in the lease (see Note 28). The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

(k) Contingent liabilities

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

(l) Related parties

In the normal course of business the Bank has entered into transactions with related parties.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Provisions

A provision is recognised in the statement of financial position when the Bank has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably.

(n) Impairment for non-financial assets

The carrying amounts of the Bank'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 assets' recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

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.

(o) Comparative information

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

(p) Assigned capital

Assigned capital arises from capital injections by the Parent Bank and is classified as equity.

(q) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the year

The Bank has adopted the following new standards and amendments during the year ended 31 December 2022, including consequential amendments to other standards with the date of initial application by the Bank being 1 January 2022. The nature and effects of the changes are as explained here in.

New standards or amendments	Effective for annual period beginning or after
— Onerous Contracts Cost of Fulfilling a Contract Jan 2022 (Amendments to IAS 37)	1 January 2022
— COVID-19 Related Rent Concession beyond 30 June 2021 (Amendment to IFRS 16)	1 April 2021
— Annual Improvements to IFRS Standards 2018-2020	1 January 2022
— Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
— Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective and adopted during the year – continued

Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

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

COVID-19-Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16 Leases

In May 2020, the Board issued COVID-19-Related Rent Concessions (the 2020 amendments), which amended IFRS 16 Leases. The 2020 amendments introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. Under that practical expedient, a lessee is not required to assess whether eligible rent concessions are lease modifications, instead accounting for them in accordance with other applicable guidance.

The practical expedient introduced in the 2020 amendments only applies to rent concessions for which any reduction in lease payments affects solely payments originally due on or before 30 June 2021. If the Board had taken no further action, the practical expedient would have expired in a few months.

The original version of the practical expedient was, and remains, optional. However, the 2021 amendments are, in effect, not optional. This is because a lessee that chose to apply the practical expedient introduced by the 2020 amendments has to consistently apply the extension to eligible contracts with similar characteristics and in similar circumstances.

This means that lessees will need to reverse previous lease modification accounting if a rent concession was ineligible for the original practical expedient under the 2020 amendments but becomes eligible as a result of the extension.

Annual Improvement cycle (2018 – 2020) – various standards

The following improvements were finalised in May 2020:

IFRS 9 Financial Instruments	IFRS 9 *Financial Instruments* - clarifies which fee should be included in the 10% test for derecognition of financial liabilities.
IFRS 16 Leases	IFRS 16 Leases - amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective and adopted during the year – continued

Annual Improvement cycle (2018 – 2020) – various standards – continued

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

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

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

Reference to the Conceptual Framework (Amendments to IFRS 3)

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (continued)

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2021 and have not been applied in preparing these financial statements.

The Branch does not plan to adopt these standards early and are summarised below;

New standards or amendments	Effective for annual period beginning or after
— IFRS 17 Insurance Contracts including amendments	1 January 2023
— Amendments to IFRS 17	1 January 2023
— Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).	1 January 2023
— Definition of Accounting Estimate (Amendments to IAS 8)	1 January 2023
— Disclosure Initiative: Accounting Policies – Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements	1 January 2023
— Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	Available for optional adoption /effective date deferred indefinitely.
— Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024
— Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2024
— Initial Application of IFRS 17 and IFRS 9- Comparative Information (Amendments to IFRS 17)	1 January 2024
— Non-Current Liabilities with covenants (Amendments to IAS 1)	1 January 2024

All standards and interpretations will be adopted at their effective date. The above standards are not expected to have a material impact on the Bank's financial statements.

4 FINANCIAL RISK MANAGEMENT DISCLOSURES

This section provides details of the bank's exposure to risk and describes the methods used by management to control risk in respect of financial instruments. The most important types of financial risk to which the bank is exposed to are credit risk, liquidity risk, operational risk and market risk. Market risk includes interest rate risk and currency risk.

Being a branch, the bank does not have a board of directors but a Management Committee which has overall responsibility for the establishment and oversight of the Bank's risk management framework.

Through its risk management structure, the bank seeks to manage efficiently the core risks; credit, liquidity and market risk, which arise directly through the bank's commercial activities. In addition compliance, regulatory risk and operational risk are normal consequences of any business undertaking.

The Management Committee has established the Asset and Liability Committee (ALCO), Credit Committee (CC), Business Credit Committee (BCC) and the Business Risk and

Controls Committee (BRCC), which are responsible for developing and monitoring the bank's risk management policies in their specified areas.

The bank's risk management policies are established to identify and analyse the risks faced by the bank, 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 bank, 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.

(a) Credit risk

Credit risk management

Credit risk is the risk to earnings or capital arising from an obligor's failure to meet the terms of any contract or to otherwise fail to perform as agreed.

The bank has well documented policies and procedures for managing credit risk. The policies are based on the principles of:

- Management responsibility Defined credit approval authorities
- Set standards for risk measurement
- Consistent approach to origination of credit, documentation and problem recognition
- Portfolio management strategies.

The risk that counterparties might default on their obligations is monitored on an ongoing basis.

To manage the level of credit risk, the bank deals with counterparties of good credit standing and for which in its assessment the transactions are appropriate and risks understood by the counterparty.

The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

4. FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(a) Credit risk (continued)

Significant increase of credit risk (SICR)

ECL are 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. Instead management, in assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Stage 3 definition of default

As mentioned above, to determine whether an instrument should move to a lifetime ECL, the change in the risk of a default occurring over the expected life of the financial instruments must beconsidered.

The Bank applies a default definition that is consistent with that used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. The definition of default used for this purpose is applied consistently to all financial instruments unless information becomes available that demonstrates another default definition is more appropriate for a particular financial instrument.

Credit quality

The following table sets out information about the credit quality and credit risk exposure of financial assets measured at amortised cost. Unless specifically indicated the amounts represent gross carrying amounts. For loan commitments, the amounts in the table represent the undrawn portion of amounts committed.

Loan commitments are overdraft facilities. Explanations of the terms 'stage 1', 'stage 2', and 'stage 3' is included in this note.

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic has severely impacted global health, financial markets, consumer and business spending, and economic conditions in all of the jurisdictions where Citi operates. The extent of the future pandemic impacts remains uncertain but may include, among other impacts, disruption of the global supply chain, higher inflation or interest rates, financial market volatility, increase in credit costs for Citi, and public health impacts. The pandemic may continue to have negative impacts on Citi's businesses and overall results of operations and financial condition.

4 FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(a) Credit risk (continued)

Credit risk management - continued

Credit quality - continued

Risk classification 2022	12 month ECL KShs '000	Lifetime ECL not credit impaired KShs '000	Lifetime ECL credit impaired KShs '000	Purchased credit impaired KShs '000	Total 31 December 2022 KShs '000
Loans and advances to customers at amortised cost					
Stage 1	47,460,630	-	-	-	47,460,630
Stage 2	-	2,948,860	-	-	2,948,860
Stage 3	-	-	1,563,490	-	1,563,490
Gross carrying amount	**47,460,630**	**2,948,860**	**1,563,490**	**-**	**51,972,980**

Risk classification 2021	12 month ECL KShs '000	Lifetime ECL not credit impaired KShs '000	Lifetime ECL credit impaired KShs '000	Purchased credit impaired KShs '000	Total 31 December 2021 KShs '000
Loans and advances at amortised cost					
Stage 1	50,306,352	-	-	-	50,306,352
Stage 2	-	2,438,153	-	-	2,438,153
Stage 3	-	-	1,020,393	-	1,020,393
Gross carrying amount	**50,306,352**	**2,438,153**	**1,020,393**	**-**	**53,764,898**

4 FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(a) **Credit risk (continued)**

Credit risk management - continued

Credit quality - continued

2022	FVOCI Securities KShs '000	Cash and balances with Central Bank of Kenya KShs '000	Derivative instruments KShs '000	Other assets KShs '000	Balances due from foreign banks KShs '000	Placement with other banks KShs '000	Off balance sheet items KShs '000
Stage 1	50,294,850	18,941,503	128,603	1,503,012	17,156,122	175	20,682,203
Stage 2	-	-	-	-	-	-	254,871
Stage 3	-	-	-	-	-	-	196,178
Gross Carrying total	**50,294,850**	**18,941,503**	**128,603**	**1,503,012**	**17,156,122**	**175**	**21,133,252**

2021	FVOCI Securities KShs '000	Cash and balances with Central Bank of Kenya KShs '000	Derivative instruments KShs '000	Other assets KShs '000	Balances due from foreign banks KShs '000	Placement with other banks KShs '000	Off balance sheet items KShs '000
Stage 1	41,380,841	12,021,083	113,724	1,143,603	21,460,651	272	18,130,507
Stage 2	-	-	-	-	-	-	124,245
Stage 3	-	-	-	-	-	-	383,965
Gross Carrying total	**41,380,841**	**12,021,083**	**113,724**	**1,143,603**	**21,460,651**	**272**	**18,638,717**

4 FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(a) Credit risk (continued)

Credit risk management - continued

Credit quality - continued

Allowances for impairment
The IFRS 9 impairment standard applies to any debt instruments measured at amortised cost or at fair value through other comprehensive income and also to off balance sheet loan commitments and financial guarantees.

Expected credit loss impairment model
Credit loss allowances will be measured on each reporting date according to a three-Stage expected credit loss impairment model under which each financial asset is classified in one of the stages below:

— Stage 1 - From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults expected over the next 12 months. Interest is calculated based on the gross carrying amount of the asset.
— Stage 2 - Following a significant increase in credit risk relative to the risk at initial recognition of the financial asset, a loss allowance is recognized equal to the full credit losses expected over the remaining life of the asset. Interest is calculated based on the gross carrying amount of the asset.
— The credit losses for financial assets in Stage 1 and Stage 2 are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive).
— Stage 3 - When a financial asset is considered to be credit-impaired, a loss allowance equal to the full lifetime expected credit losses will be recognized. Credit losses are measured as the difference between the gross carrying amount and the present value of estimated future cash flows. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

Evidence that a financial asset is impaired includes observable data that comes to the attention of the Bank such as:

— Significant financial difficulty of the issuer or obligor;
— A breach of contract, such as a default or delinquency in interest or principal payments;
— It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
— The disappearance of an active market for that financial asset because of financial difficulties; or
— Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    — adverse changes in the payment status of borrowers in the portfolio; and
    — national or local economic conditions that correlate with defaults on the assets in the portfolio.

4 FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(a) Credit risk (continued)

Expected credit loss impairment model - continued

Loans are written off when there is no realistic probability of recovery. The estimation of an expected credit loss (ECL) is required to be unbiased and probability weighted, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The estimate also considers the time value of money.

The measurement of an ECL is primarily determined by an assessment of the financial asset's probability of default (PD), loss given default (LGD) and exposure at default (EAD) where the cash shortfalls are discounted to the reporting date. For a financial asset in Stage 1, the Bank will utilise a 12-month PD, whereas a financial asset within Stage 2 and Stage 3 will utilise a lifetime PD in order to estimate an impairment allowance.

Wholesale classifiably managed exposures

An impairment allowance will be estimated for Corporate loans utilising sophisticated models depending on the relative size, quality and complexity of the portfolios.

4 FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(a) Credit risk (continued)

Expected credit loss impairment model - continued
Amount of loss allowance arising from ECL
The bank exposure to credit risk is analysed as follows:

	31-Dec-22				31-Dec-21			
	12 month ECL (Stage 1)	**Lifetime ECL not credit impaired (Stage 2)**	**Lifetime ECL credit impaired (Stage 3)**	**Total**	**12 month ECL (Stage 1)**	**Lifetime ECL not credit impaired (Stage 2)**	**Lifetime ECL credit impaired (Stage 3)**	**Total**
Amounts in KShs	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**
Loss allowance-Loans and advances at amortised cost								
Loss allowance as at 1 January	36,943	7,490	689,343	733,776	27,957	111,220	724,103	863,280
Transfer to 12 months ECL (Stage 1)	5,360	(5,360)	-	-	96,865	(96,865)	-	-
Transfer to Lifetime ECL not credit impaired (Stage 2)	(46,516)	46,516	-	-	(64,583)	64,583	-	-
Transfer to Lifetime ECL credit impaired (Stage 3)	-	-	-	-	-	-	-	-
Net remeasurement of loss allowance	176,642	6,453	421,089	604,184	(23,296)	(71,448)	(34,760)	(129,504)
Loss allowance as at 31 December	**172,429**	**55,099**	**1,110,432**	**1,337,960**	**36,943**	**7,490**	**689,343**	**733,776**

4 **FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)**

(a) Credit risk (continued)

Expected credit loss impairment model - continued

Amount of loss allowance arising from ECL - continued

2022	**FVOCI Securities KShs '000**	**Cash and balances with Central Bank of Kenya KShs '000**	**Derivative Instruments KShs '000**	**Other assets KShs '000**	**Balances due from foreign banks KShs '000**	**Placement with other banks KShs '000**	**Off balance sheet items KShs '000**
Stage 1	50,294,850	18,941,502	128,603	1,503,012	17,156,122	175	20,682,203
Stage 2	-	-	-	-	-	-	254,871
Stage 3	-	-	-	-	-	-	196,178
Gross Carrying total	**50,294,850**	**18,941,502**	**128,603**	**1,503,012**	**17,156,122**	**175**	**21,133,252**
Loss allowance	(132,485)	-	-	-	-	-	(171,723)
Net Carrying total	**50,162,365**	**18,941,502**	**128,603**	**1,503,012**	**17,156,122**	**175**	**20,961,529**
2021							
Stage 1	41,380,841	12,021,082	113,724	1,143,604	21,460,651	272	18,130,507
Stage 2	-	-	-	-	-	-	124,245
Stage 3	-	-	-	-	-	-	383,965
Gross Carrying total	**41,380,841**	**12,021,082**	**113,724**	**1,143,604**	**21,460,651**	**272**	**18,638,717**
Loss allowance	(52,104)	-	-	-	-	-	(104,060)
Net Carrying total	**41,328,737**	**12,021,082**	**113,724**	**1,143,604**	**21,460,651**	**272**	**18,534,657**

The Bank held Government securities worth KShs 0 (2021 - KShs 179,150,000) as collateral against some of its loans and advances.

4 FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(a) Credit risk (continued)

Write-off policy

The bank writes off a loan / security balance (and any related allowances for impairment losses) when the bank determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower 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.

Derivatives

The credit risk arising from derivatives is managed as part of the overall lending limits to banks and customers. The amount of credit risk is the current positive fair value of the underlying contract together with potential exposures from future market movements. The Group further limits its exposures to credit losses in the event of default by entering into master netting agreements with certain market counterparties. Exposures are not presented net in the financial statements as in the ordinary course of business they are not intended to be settled net.

Where appropriate, derivatives are used to reduce credit risks in the portfolio. Due to their potential impact on income volatility, derivatives are only used in a controlled manner and within a pre-defined volatility expectation.

(b) Liquidity risk

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations from its financial liabilities. The bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the bank's reputation.

Liquidity risk arises in the general funding of the bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe.

ALCO is responsible for ensuring that the bank manages its liquidity risk and is able to meet all its obligations to make payments as and when they fall due. It also has primary responsibility for compliance with regulations and bank policy and maintaining a liquidity crisis contingency plan.

The bank 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 with daily liquidity positions being monitored.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of liquidity risk.

4. FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(b) Liquidity risk (continued)

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates and exchange rates.

A substantial portion of the bank's assets are funded by customer deposits made up of current and savings accounts and other deposits. These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. Lending is normally funded by liabilities in the same currency.

The bank also maintains significant levels of marketable securities either for compliance with statutory requirements or as prudential investments of surplus funds.

A key measure of liquidity risk is the ratio of net liquid assets to deposit liabilities. The Central Bank of Kenya requires banks to maintain a statutory minimum ratio of 20% of liquid assets to all its deposit liabilities.

For this purpose, liquid assets comprise cash and balances with Central Bank of Kenya, net balances with financial institutions, treasury bonds and bills and net balances with banks abroad.

Deposit liabilities comprise deposits from customers, other liabilities that have matured or maturing within 91 days.
The liquidity ratios at the reporting date and during the reporting period (based on month end ratios) were as follows:

	2022	**2021**
At 31 December	65.3%	60.0%
Average for the period	66.2%	69.3%
Highest for the period	70.5%	79.4%
Lowest for the period	59.1%	60.0%

4. FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(b) Liquidity risk (continued)

Residual contractual maturities of financial liabilities:

31 December 2022	Carrying amount KShs '000	Contractual cashflows On Demand KShs '000	Due within 3 months KShs '000	Due between 3 and 12 months KShs '000	Due between 1 and 5 years KShs '000	Due after 5 years KShs '000	Total KShs '000
Financial liabilities							
Balances from banks	2,422,432	1,488,147	800,000	134,285	-	-	2,422,432
Derivative instruments	49	49	-	-	-	-	49
Due to customers	110,039,790	102,169,321	100	708,967	7,161,402	-	110,039,790
Lease liabilities	50,622	-	-	16,546	34,076		50,622
Other liabilities	1,553,276	1,283,204	270,072	-	-	-	1,553,276
	114,066,169	**104,940,721**	**1,070,172**	**859,798**	**7,195,478**	**-**	**114,066,169**
Financial assets							
Cash and balances with Central Bank	18,941,503	18,941,503	-	-	-	-	18,941,503
Other assets	1,503,012	1,503,012	-	-	-	-	1,503,012
FVOCI Securities	50,294,850	-	31,258,164	7,668,622	11,368,064	-	50,294,850
Due from foreign branches	17,156,122	-	17,156,122	-	-	-	17,156,122
Due from other banks	175	-	175	-	-	-	175
Derivative instruments	128,603	128,603	-	-	-		128,603
Loans and advances to customers (net)	50,635,020	-	34,768,540	5,407,230	10,459,250	-	50,635,020
	138,659,285	**20,573,118**	**83,183,001**	**13,075,852**	**21,827,314**	**-**	**138,659,285**

Customer deposits up to three months represent current and call deposit account balances, which past experience has shown to be stable and of a long-term nature.

4. FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(b) Liquidity risk (continued)

Residual contractual maturities of financial liabilities – continued

31 December 2021	Carrying amount KShs '000	Contractual cashflows On Demand KShs '000	Due within 3 months KShs '000	Due between 3 and 12 months KShs '000	Due between 1 and 5 years KShs '000	Due after 5 years KShs '000	Total KShs '000
Financial liabilities							
Deposits from banks	8,348,701	4,880,916	2,800,000	667,785	-	-	8,348,701
Derivative instruments	43,312	43,312	-	-	-	-	43,312
Due to customers	98,429,798	94,300,158	133,850	2,096,783	1,899,007	-	98,429,798
Lease liabilities	61,596	-	-	14,518	47,078	-	61,596
Other liabilities	1,520,889	1,361,296	159,593	-	-	-	1,520,889
	108,404,296	**100,585,682**	**3,093,443**	**2,799,086**	**1,946,085**	**-**	**108,404,296**
Financial assets							
Cash and balances with Central Bank	12,021,083	857,388	11,163,695	-	-	-	12,021,083
Other assets	1,143,604	1,143,604	-	-	-	-	1,143,604
FVOCI Securities	41,380,841	-	25,421,794	9,348,895	6,610,152	-	41,380,841
Due from foreign branches	21,460,651	-	21,460,651	-	-	-	21,460,651
Due from other banks	272	-	272	-	-	-	272
Derivative instruments	113,724	113,724	-	-	-		113,724
Loans and advances to customers (net)	53,031,122	-	36,260,824	8,101,081	8,669,217		53,031,122
Total financial assets	**129,151,297**	**2,114,716**	**94,307,236**	**17,449,976**	**15,279,369**	**-**	**129,151,297**

Customer deposits up to three months represent current and call deposit account balances, which past experience has shown to be stable and of a long-term nature.

4. FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(b) Liquidity risk (continued)

The lease liabilities maturities were as below;

	Due between 1 and 5 years KShs '000	Due after 5 years KShs '000	Total KShs '000
Financial liabilities			
Lease Liabilities	16,546	34,076	50,622
	16,546	**34,076**	**50,622**

31 December 2021	Due between 1 and 5 years KShs '000	Due after 5 years KShs '000	Total KShs '000
Financial liabilities			
Lease Liabilities	14,518	47,078	61,596
	14,518	**47,078**	**61,596**

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands.

The Bank is also exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Currency risk is managed principally through limits set on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily.

Overall responsibility for market risk is vested in ALCO.

Sensitivity analysis interest rate risk

The sensitivity analysis on the accrual book is measured by the change in DV01 (Dollar value of 01) that measures the change in value of the accrual portfolio due to a 1 basis point parallel move in the interest rates. At 31 December 2022, a 1 basis point parallel increase in the interest rates with all other variables held constant would have resulted to a pre-tax loss movement of KShs (589,075) (2021 KShs 389,359).

4. FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(c) Market risk (continued)

(i) Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual reprising or maturity dates.

4. FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(c) Market risk (continued)

(i) Interest rate risk – continued

	Effective interest rate	Within 3 months	Between 3 and 12 months	Between 1 and 5 years	Non interest bearing	Total
31-Dec-22	%	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Cash and balances with Central Bank	-	-	-	-	18,941,503	18,941,503
Other assets		-	-	-	1,503,012	1,503,012
FVOCI Securities	11.90%	31,258,164	7,668,622	11,368,064	-	50,294,850
Due from foreign branches	0.00%	17,156,122	-	-	-	17,156,122
Due from other banks	0.00%	175	-	-	-	175
Derivative instruments		-	-	-	128,603	128,603
Loans and advances to customers (net)	9.29%	34,768,540	5,407,230	10,459,250	-	50,635,020
Total financial assets		**83,183,001**	**13,075,852**	**21,827,314**	**20,573,118**	**138,659,285**
Financial liabilities and equity						
Deposits from banking institutions	7.80%	2,288,147	134,285	-	-	2,422,432
Derivative instruments		-	-	-	49	49
Customer deposits	3.72%	102,169,421	708,967	7,161,402	-	110,039,790
Other/Lease Liabilities		1,283,204	320,694	-	-	1,603,898
Total financial liabilities		**105,740,772**	**1,163,946**	**7,161,402**	**49**	**114,066,169**
Interest rate sensitivity gap		**(22,557,771)**	**11,911,906**	**14,665,912**	**20,573,069**	**24,593,116**

4. **FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)**

(c) **Market risk (continued)**

(i) Interest rate risk – continued

31 December 2021	Effective interest rate	Within 3 months	Between 3 and 12 months	Between 1 and 5 years	Non interest bearing	Total
	%	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Cash and balances with Central Bank	-	11,163,695	-	-	857,388	12,021,083
Other assets		-	-	-	1,143,604	1,143,604
FVOCI Securities	11.57%	25,421,794	9,348,895	6,610,152	-	41,380,841
Due from foreign branches	1.28%	21,460,651	-	-	-	21,460,651
Due from other banks		272	-	-	-	272
Derivative instruments		-	-	-	113,724	113,724
Loans and advances to customers (net)	7.99%	36,260,824	8,101,081	8,669,217	-	53,031,122
Total financial assets		**94,307,236**	**17,449,976**	**15,279,369**	**2,114,716**	**129,151,297**
Financial liabilities and equity						
Deposits from banking institutions	0.00%	7,680,917	667,784	-	-	8,348,701
Derivative instruments		-	-	-	43,312	43,312
Customer deposits	3.73%	94,434,008	2,096,783	1,899,007	-	98,429,798
Other/Lease Liabilities		1,360,903	221,188	-	-	1,582,091
Total financial liabilities		**103,475,828**	**2,985,755**	**1,899,007**	**43,312**	**108,403,902**
Interest rate sensitivity gap		**(9,168,592)**	**14,464,221**	**13,380,362**	**2,071,404**	**20,747,395**

4. **FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)**

(c) **Market risk (continued)**

(ii) Currency risk

The Bank operates wholly within Kenya and its assets and liabilities are carried in the local currency. The various foreign currencies to which the Bank is exposed at 31 December 2022 are summarised below:

31 December 2022

	USD KShs '000	GBP KShs '000	Euro KShs '000	JPY KShs '000	Others KShs '000	Total KShs '000
Financial assets						
Balance sheet items						
Cash and balances with banks abroad	13,591,973	423,883	3,810,362	104,381	282,059	**18,212,658**
Loans and advances	24,198,714	316,856	1,780,055	-	785	**26,296,410**
Other foreign assets	4,923,754	294	30,817	-	-	**4,954,865**
Off balance sheet items						
Undelivered spot purchases	-	-	-	-	-	**-**
Forward purchases	14,047,457	-	1,263,691	-	45,335	**15,356,483**
Total financial foreign assets	**56,761,898**	**741,033**	**6,884,925**	**104,381**	**328,179**	**64,820,416**
Financial liabilities						
Balance Sheet Items						
Deposits	43,981,767	373,061	6,829,865	104,041	253,814	**51,542,548**
Other Foreign Liabilities	4,876,266	-	50,279	-	1,400	**4,927,945**
Foreign Loans and Advances	9,885	-	-	-	-	**9,885**
Off Balance Sheet Items						
Undelivered Spot Sales	18,379	-	-	-	-	**18,379**
Forward Sales	7,869,725	368,089	-	-	43,320	**8,281,134**
Total financial Foreign liabilities	**56,756,022**	**741,150**	**6,880,144**	**104,041**	**298,534**	**64,779,891**
Net Open Position	**5,876**	**(117)**	**4,781**	**340**	**29,645**	**40,525**
Long/(short)position	**5,876**	**(117)**	**4,781**	**340**	**29,645**	**40,525**

4. FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(c) Market risk (continued)

(ii) Currency risk - continued

31 December 2021	USD	GBP	EURO	JPY	Others	TOTAL
Financial assets	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Balance sheet items						
Cash and balances with banks abroad	19,888,553	541,014	3,570,991	208,458	148,752	**24,357,768**
Loans and advances	26,313,693	-	957,992	158,625	1	**27,430,311**
Other foreign assets	3,868,331	2,134	11,100	-	-	**3,881,565**
Off balance sheet items						
Undelivered spot purchases	460,669	-	-	9,831	2,679	**473,179**
Forward purchases	8,155,406	-	51,481	34,208	75,051	**8,316,146**
Total financial foreign assets	**58,686,652**	**543,148**	**4,591,564**	**411,122**	**226,483**	**64,458,969**
Financial liabilities						
Balance Sheet Items						
Deposits	49,364,300	341,337	4,520,504	279,570	39,662	**54,545,373**
Balances due to banks abroad	-	-	-	-	6,502	**6,502**
Other Foreign Liabilities	3,870,158	-	13,493	-	1,275	**3,884,926**
Foreign Loans and Advances	9,213	-	-	-	-	**9,213**
Off Balance Sheet Items						
Undelivered Spot Sales	113,682	-	-	4,915	-	**118,597**
Forward Sales	5,394,469	182,939	51,481	124,775	76,343	**5,830,007**
Total Foreign liabilities	**58,751,822**	**524,276**	**4,585,478**	**409,260**	**123,782**	**64,394,618**
Net Open Position	**(65,170)**	**18,872**	**6,086**	**1,862**	**102,701**	**64,351**
Long/(short)position	**(65,170)**	**18,872**	**6,086**	**1,862**	**102,701**	**64,351**

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (continued)

Sensitivity analysis foreign currency exchange risk

The bank's assets and liabilities held in foreign currency are bound to be affected by the fluctuations in the foreign exchange rate. The sensitivity analysis on the foreign currency position is measured by the trading DV01 that measures the change in value of the position as a result of a 1 percentage point shift (appreciation) in exchange rates. The trading DV01 for the USD and the EUR positions that constitute the significant portion of the statement of financial position is as follows:

	2022 KShs'000	2021 KShs'000
USD	588	(6,517)
EUR	478	609
GBP	(12)	1,887
JPY	34	186

The following significant exchange rates were applied during the year:

	Closing		Average	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
GBP	149.16	152.95	143.26	150.80
JPY	94.02	98.21	86.45	98.36
EUR	131.96	128.28	124.62	127.83
USD	123.30	113.05	121.92	111.88

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputation and franchise risk associated with the Bank's business practices or market conduct; and the risk of failing to comply with applicable laws and regulations.

The Bank seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

Compliance with operational risk policies and procedures is the responsibility of all business managers. The Business Risk and Controls Committee (BRCC) has the overall responsibility for ensuring that an appropriate and robust risk management framework is in place to monitor and manage operational risk.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This is supported by the Manager's Control Assessment process that assess the effectiveness of controls over the risks identified.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management

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 bank.

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.

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:

— a core capital of not less than 8% of total risk weighted assets, plus risk weighted off - balance sheet items
— a core capital of not less than 8% of its total deposit liabilities
— a total capital of not less than 12% of its total risk weighted assets, plus risk weighted off-balance sheet items
— A capital conservation buffer of 2.5% over and above the above minimum ratios.

This brings the minimum core capital to risk weighted assets and total capital to risk weighted assets to 10.5% and 14.5% respectively.

Central Bank of Kenya required the bank to maintain a minimum core capital of Kshs 1 billion as at 31 December 2021. The bank is already compliant with this requirement.

Capital is segregated into core capital (Tier 1) and supplementary capital (Tier 2).

Core capital includes assigned capital, irredeemable preference shares, share premium and retained earnings after deductions for goodwill and intangible assets.

Supplementary capital on the other hand includes 25% of revaluation reserves of property and equipment, subordinated debt not exceeding 50% of core capital and any other approved reserves.

Risk weighted assets are arrived at using a framework of four weights applied to both on-balance sheet and off-balance sheet items to reflect the relative risk of each asset and counterparty.

4 FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (continued)

The Bank's regulatory capital position at 31 December was as follows:

	2022 KShs '000	2021 KShs '000
Core capital (Tier 1)		
Assigned capital	4,582,975	4,582,975
Retained earnings	20,141,740	13,634,546
Less deferred tax asset	(618,144)	(329,346)
	24,106,571	**17,888,175**
Supplementary capital (Tier 2)		
Statutory reserve	44,698	658,037
Total capital	**24,151,269**	**18,546,212**
Risk weighted assets		
On-balance sheet	55,808,365	59,384,891
Off-balance sheet	18,826,194	19,493,981
Market Risk qualifying Assets	5,589,914	2,746,787
Operational Risk Equivalent Assets	17,122,478	17,097,258
Total risk weighted assets	**97,346,951**	**98,722,917**
Deposits from customers	**112,462,222**	**104,280,578**

Capital ratios	**2022**	**2021**
Core capital/total deposit liabilities (CBK minimum 8%)	21.4%	17.1%
Core capital /total risk weighted assets (CBK minimum 10.5%)	24.8%	18.1%
Total capital /total risk weighted assets (CBK minimum 14.5%)	24.8%	18.8%

5 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on the managements best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

5 USE OF ESTIMATES AND JUDGEMENTS (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is set out below:

(a) Impairment of financial assets

Judgement is made on classification of financial assets assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely for Payment of Principal and Interest (SPPI) on the principal amount outstanding.

Judgement is made in establishing the criterion for determining whether credit risk on the financial instrument has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Losses (ECLs) and selection and approvals of models used to measure ECL.

Assets accounted for at amortised cost and fair value through other comprehensive income are evaluated for impairment on a basis described Note 3(b).

The Bank recognises loss allowance at an amount equal to either 12-month expected credit losses (ECLs) or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

For credit exposures where there have not been significant increases in credit risk since initial recognition, the Bank provides for 12-month ECLs. These are classified as Stage 1 assets.

For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime ECLs. These are classified as Stage 2 assets.

For credit exposures that are credit impaired and in default, similar to stage 2 assets, a loss allowance is required for lifetime ECLs however the probability of default for these assets is presumed to be 100% less any determined recovery and cure rate.

Business model assessment and assumptions

The following are the critical judgements, apart from those involving estimations (which are dealt with separately above), that the management have made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

5 USE OF ESTIMATES AND JUDGEMENTS (Continued)

(a) Impairment of financial assets (continued)

Business model assessment and assumptions - continued

Judgement is made on classification of financial assets assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely for Payment of Principal and Interest (SPPT) on the principal amount outstanding.

Judgement is made in establishing the criterion for determining whether credit risk on the financial instrument has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Losses (ECLs) and selection and approvals of models used to measure ECL.

Assets accounted for at amortised cost and fair value through other comprehensive income are evaluated for impairment on a basis described Note 3(b).

The Bank recognises loss allowance at an amount equal to either 12-month expected credit losses (ECLs) or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

For credit exposures where there have not been significant increases in credit risk since initial recognition, the Bank provides for 12-month ECLs. These are classified as Stage 1 assets.

For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime ECLs. These are classified as Stage 2 assets.

For credit exposures that are credit impaired and in default, similar to stage 2 assets, a loss allowance is required for lifetime ECLs however the probability of default for these assets is presumed to be 100% less any determined recovery and cure rate.

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (refer to note 3(b).) The Bank 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 Bank 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 Bank'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.

5 USE OF ESTIMATES AND JUDGEMENTS (Continued)

(a) Impairment of financial assets (continued)

Significant increase of credit risk (SICR)

ECL are 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. Instead management, in assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to note 3(b) for more details.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3(b) for details of the characteristics considered in this judgement. The 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 differs.

Models and assumptions used

The Bank uses various models and assumptions 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. Refer to note 3 (b) for more details on ECL measurement.

(b) Useful life of assets

Property and equipment

Critical estimates are made by management in determining the useful life of property and equipment.

(c) Fair value of financial instruments

Where the fair values of the financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

5 USE OF ESTIMATES AND JUDGEMENTS (Continued)

(d) Taxation

Judgment is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Bank recognises the net future tax benefit that relates to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Bank to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Bank to realise the net deferred tax assets recorded at the reporting date could be impacted.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Branch's accounting policies include financial asset and liability classification. The Branch's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

In classifying financial assets as held to collect and sell, the Branch has determined that it has both positive intention and ability to hold the assets until their maturity date.

6. FINANCIAL ASSETS AND LIABILITIES

(a) Accounting classifications and fair values

31 December 2022	FVPTL KShs'000	FVOCI KShs'000	Amortised Cost KShs'000	Others at amortised cost KShs'000	Fair value measurements KShs'000 Level 1	KShs'000 Level 2	KShs'000 Level 3	KShs'000 Total
Financial assets								
Cash and balances with Central Bank of Kenya	-	-	18,941,503	-	-	18,941,503	-	18,941,503
Other assets	-	-	1,503,012	-	-	-	1,503,012	1,503,012
FVOCI Securities	-	50,294,850	-	-	-	50,294,850	-	50,294,850
Derivative financial instruments	128,603	-	-	-	-	128,603	-	128,603
Placements with other banks	-	-	175	-	-	-	175	175
Balances due from foreign branches	-	-	17,156,122	-	-	-	17,156,122	17,156,122
Loans and advances to customers	-	-	50,635,020	-	-	-	50,635,020	50,635,020
	128,603	**50,294,850**	**88,235,832**	**-**	**-**	**69,364,956**	**69,294,329**	**138,659,285**
Financial liabilities					-			
Deposits from banks	-	-	-	2,422,432	-	-	2,422,432	2,422,432
Deposits from customers	-	-	-	110,039,790	-	-	110,039,790	110,039,790
Derivative financial instruments	49	-	-	-	-	49	-	49
Other liabilities (including lease liability)	-	-	-	1,603,900	-	-	1,603,900	1,603,900
	49	**-**	**-**	**114,066,122**	**-**	**49**	**114,066,122**	**114,066,171**

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

(a) Accounting classifications and fair values (continued)

31 December 2021	FVPTL KShs'000	FVOCI KShs'000	Amortised Cost KShs'000	Others at amortised cost KShs'000	Fair value measurements KShs'000 Level 1	KShs'000 Level 2	KShs'000 Level 3	KShs'000 Total
Financial assets								
Cash and balances with Central Bank of Kenya	-	-	12,021,083	-	-	12,021,083	-	12,021,083
Other assets	-	-	1,143,604	-		-	1,143,604	1,143,604
FVOCI Securities	-	41,380,841	-	-	-	41,380,841	-	41,380,841
Derivative financial instruments	113,724	-	-	-		113,724	-	113,724
Placements with other banks	-	-	272	-		-	272	272
Balances due from foreign branches	-	-	21,460,651	-		-	21,460,651	21,460,651
Loans and advances to customers	-	-	53,031,122	-		-	53,031,122	53,031,122
	113,724	**41,380,841**	**87,656,732**	**-**		**53,515,648**	**75,635,649**	**129,151,297**
Financial liabilities								
Deposits from banks	-	-	-	8,348,702		-	8,348,702	8,348,702
Deposits from customers	-	-	-	98,429,798		-	98,429,798	98,429,798
Derivative financial instruments	43,312	-	-	-		43,312	-	43,312
Other liabilities-items in transit	-	-	-	1,582,092		-	1,582,092	1,582,092
	43,312	**-**	**-**	**108,360,592**		**43,312**	**108,360,592**	**108,403,904**

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

(a) Accounting classifications and fair values (continued)

The following sets out the branch's basis of establishing fair value of the financial instruments:

Derivative financial instruments

Derivative financial instruments are measured at fair value as set out in Note 15.

Cash and balances with Central Bank of Kenya

The fair value of cash and bank balances with the Central Bank of Kenya is their carrying amount.

Deposits and advances to banks

The fair value of floating rate placements and overnight deposits is their carrying amounts.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances reprice within 12 months and hence the carrying amount is a good proxy of the fair value.

FVOCI Instruments

FVOCI securities with observable market prices are fair valued using that information. The fair value is determined by discounting the securities using prevailing market rates.

Deposits from banks and customers

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market.

A substantial proportion of deposits are within 6 months and hence the carrying amount is a good proxy of the fair value.

(b) Valuation hierarchy

The valuation hierarchy, and types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy (continued)

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out below as at 31 December 2022:

31 December 2022	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
FVOCI Securities	-	50,294,850	-	**50,294,850**
Derivative financial instruments	-	128,603	-	**128,603**
Total assets	**-**	**50,423,453**	**-**	**50,423,453**
Liabilities				
Derivative financial instruments	-	49	-	**49**
Total liabilities	**-**	**49**	**-**	**49**
31 December 2021				
Assets				
FVOCI Securities	-	41,380,841	-	**41,380,841**
Derivative financial instruments	-	113,724	-	**113,724**
Total assets	**-**	**41,494,565**	**-**	**41,494,565**
Liabilities				
Derivative financial instruments	-	43,312	-	**43,312**
Total liabilities	**-**	**43,312**	**-**	**43,312**

7. INTEREST INCOME

	2022 KShs '000	2021 KShs '000
Loans and advances to customers	4,335,322	2,700,807
Government securities	4,081,024	3,528,339
Placements with other banks and institutions	202,932	159,581
Other interest income	116,719	167,731
	8,735,997	**6,556,458**

8. INTEREST EXPENSE

Customer deposits	1,388,496	1,149,226
Deposit from other banks and banking institutions	100,009	154,151
Other interest expense	270	78
	1,488,775	**1,303,455**

9. NON INTEREST INCOME

	2022 KShs '000	2021 KShs '000
Income from foreign exchange dealing	5,607,878	2,380,723
Fee and commission income	960,899	997,467
Gain on disposal of held to collect and sell	872,519	583,147
Loss on disposal of fixed assets	(2,754)	(164)
	7,438,542	**3,961,173**

Fees and commission income relate to fees earned by the bank on transactional activities. Income from forex dealing relates to the net gains on foreign exchange forward contracts and foreign currency positions. These are derivative instruments held at fair value through profit or loss.

The gain on disposal of securities relates to FVOCI investment securities disposed off during the year.

10. NON INTEREST EXPENSE

	2022 KShs '000	2021 KShs '000
Salaries and employee benefits	2,503,329	1,921,885
Depreciation and amortisation	100,447	97,968
Right of use Amortization (Note 27)	15,448	13,281
Occupancy costs	141,209	150,681
Deposit Protection Fund	128,251	115,655
Other expenses	1,360,842	1,243,705
	4,249,526	**3,543,175**

11. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):		
Auditor remuneration	11,827	10,437
Depreciation and amortisation	100,447	97,968
Right Of Use Amortisation	15,448	13,281
(Loss) on sale of property and equipment	(2,754)	(164)

12. INCOME TAX EXPENSE

(a) Income tax charge

Current income tax at 37.5%	4,218,627	2,307,423
Prior year under/over provision on current tax	-	-
Deferred tax - Current year (Note 21)	(258,720)	39,349
	3,959,907	**2,346,772**

12. INCOME TAX EXPENSE (Continued)

(b) Tax reconciliation

The tax on the bank's profit differs from the theoretical amount using the basic tax rate as follows:

	2022 KShs '000	2021 KShs '000
Accounting profit before tax	9,853,762	5,838,977
Computed tax using the applicable corporation tax rate 37.5%	3,695,161	2,189,624
Net tax effect of non-deductible expenses and non-taxable income	264,746	157,148
	3,959,907	2,346,772

(c) Tax (recoverable)/payable

Balance at 1 January	(814,470)	(400,869)
Charge for the year	4,218,627	2,307,423
Paid during the year	(2,538,166)	(2,721,024)
Balance at 31 December	865,991	(814,470)

13. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2022 KShs '000	2021 KShs '000
Cash on hand	1,171,286	857,387
Available balances at Central Bank of Kenya	13,159,609	6,997,560
Cash and cash equivalents (Note 26(b))	**14,330,895**	**7,854,947**
Cash reserve ratio with Central Bank of Kenya	4,610,608	4,166,136
	18,941,503	12,021,083

The Cash Reserve Ratio (CRR) is non-interest earning and is based on the value of deposits as adjusted for Central Bank of Kenya requirements. Banks are required to maintain their CRR based on monthly average basis, free to deviate from the 4.25% on any given day but not to fall below 3%, provided that the overall average for the month will be at least 4.25%. At 31 December 2022, the Cash Reserve Ratio requirement was 4.25% of eligible deposits (2021 – 4.25%).

14. FVOCI INVESTMENTS

	2022 KShs '000	2021 KShs '000
FVOCI instruments		
Government securities		
Treasury bills:		
- maturing within 90 days	31,255,000	25,421,794

14. FVOCI INVESTMENTS (Continued)

	2022 KShs '000	2021 KShs '000
- maturing after 90 days	7,671,786	9,144,567
Treasury bonds		
- maturing within 90 days	-	-
- maturing after 90 days	11,368,064	6,814,480
	50,294,850	41,380,841
Corporate bonds	-	-
	50,294,850	**41,380,841**

15. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The types of derivatives used by the Bank are set out below.

All derivatives are recognised and subsequently measured at fair value, with all revaluation gains recognised in the profit or loss.

These tables analyse the notional principal amounts and the positive (assets) and negative (liabilities) fair values of the Bank's derivative financial instruments. Notional principal amounts are the amounts of principal underlying the contract at the reporting date.

	2022			2021		
	Notional principal amounts KShs '000	**Assets KShs '000**	**Liabilities KShs '000**	**Notional principal amounts KShs '000**	**Assets KShs '000**	**Liabilities KShs '000**
Forward foreign exchange contracts	**22,335,581**	**128,603**	**49**	**14,334,380**	**113,724**	**43,312**

The Bank enters into derivative transactions with its customers. The transaction price in the market in which these transactions are undertaken may be different from the fair value in the Bank's principal market for these transactions, which are the interbank exchange rates in Kenya. On initial recognition, the Bank estimates the fair values of the derivatives transacted with the customers using valuation techniques. In many cases, all significant inputs to the valuation techniques are wholly observable – e.g., with reference to information from similar transactions in the Interbank dealer market published by the Central Bank of Kenya.

16. PLACEMENTS WITH OTHER BANKS

	2022 KShs '000	2021 KShs '000
Due within 90 days	**175**	**272**

Banks are required by central bank to maintain certain cash ratios (CRR) and also facilitate liquidity in the market through interbank borrowing and lending. The weighted average effective interest rate on placements as at 31 December 2021 was 0.0% (2020 – 4.32%)

17. BALANCES DUE FROM FOREIGN BRANCHES

	2022 KShs '000	2021 KShs '000
Due within 90 days	17,156,122	21,460,651

These are balances due from foreign branches of Citibank N.A. which had weighted average effective interest rate at 31 December 2022 of 0.00% (2021 – 0.00%).

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances

Product Classification	2022 KShs '000	2021 KShs '000
Overdrafts	18,117,777	9,987,569
Loans	24,730,728	30,234,813
Bills discounted and bills negotiated	9,124,475	13,542,516
Gross loans and advances	**51,972,980**	**53,764,898**
Less: Loss allowance (Note 4(a))	(1,337,960)	(733,776)
Net loans and advances	**50,635,020**	**53,031,122**

Lending by economic activities:

	2022	2021
Manufacturing	32,766,695	36,870,362
Business services	66,937	124,119
Agriculture and related	2,047,828	2,735,552
Mining and quarrying	329,222	250,297
Transport and communications	9,378,595	6,089,435
Wholesale and retail trade	2,702,635	2,407,783
Building and construction	2	-
Finance and insurance	8	326,806
Social community and personal services	1,629,209	1,590,760
Others	3,051,849	3,369,784
	51,972,980	53,764,898

(b) Expected credit losses

2022	Stage 1 and 2 impairment losses KShs '000	Stage 3 impairment losses KShs '000	Total KShs '000
At 1 January 2022	44,433	689,343	733,776
Made during the year	183,094	421,090	604,184
At 31 December 2022	**227,527**	**1,110,433**	**1,337,960**

18. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Expected credit losses (continued)

2021	Stage 1 and 2 impairment losses KShs '000	Stage 3 impairment losses KShs '000	Total KShs '000
At 1 January 2021	139,177	724,103	863,280
Made during the year	-	25,603	25,603
Recoveries from write offs	(94,744)	(60,363)	(155,107)
At 31 December 2021	**44,433**	**689,343**	**733,776**

(c) Impairment loss provisions

	2022 KShs '000	2021 KShs '000
Made during the year	**582,476**	**(167,996)**

(d) Impaired loans and advances

	2022 KShs '000	2021 KShs '000
Impaired loans and advances	1,563,490	1,020,393
Impairment loss provision	(1,110,433)	(689,343)
Recoverable amount of impaired loans and advances	**453,057**	**331,050**
Interest on impaired loans and advances which has not yet been received in cash	-	-

The estimated realisable value of securities held against this balance is KShs 498,900,000 (2021 – KShs 13,500,000). The realisation of the securities is subject to legal process.

19. OTHER ASSETS

	2022 KShs '000	2021 KShs '000
Items in transit	56,038	44,802
Prepayments	(20,005)	43,544
Other receivables	1,466,979	1,098,802
	1,503,012	**1,187,148**

20. PROPERTY, PLANT AND EQUIPMENT

2022	Buildings & improvements KShs '000	Furniture & equipment KShs '000	Motor vehicles KShs '000	Computers KShs '000	Work in progress KShs '000	Right of use KShs '000	Total KShs '000
Cost							
As at 1 January 2022	1,024,462	113,265	36,927	196,265	3,248	93,987	1,468,154
Transfer from work in progress	1,802	694	-	752	(3,248)	-	-
Adjustments	-	-	-	238	-	(3,600)	(3,362)
Additions	12,060	1,545	-	30,572	31,316	-	75,493
Disposals/Write off	(41,488)	(3,867)	-	(59,787)	-	(5,222)	(110,364)
As at 31 December 2022	**996,836**	**111,637**	**36,927**	**168,040**	**31,316**	**85,165**	**1,429,921**
Depreciation							
As at 1 January 2022	578,353	83,506	29,865	135,447	-	39,577	866,748
Charge for the year	53,222	9,220	4,990	33,045	-	15,448	115,925
Disposal/write-off/Transfers	(41,488)	(3,623)	-	(57,277)	-	-	(102,388)
As at 31 December 2022	**590,087**	**89,103**	**34,855**	**111,215**	**-**	**55,025**	**880,285**
Carrying Amount							
As at 31 December 2022	**406,749**	**22,534**	**2,072**	**56,825**	**31,316**	**30,140**	**549,636**

20. PROPERTY, PLANT AND EQUIPMENT (Continued)

2021	Buildings & improvements KShs '000	Furniture & equipment KShs '000	Motor vehicles KShs '000	Computers KShs '000	Work in progress KShs '000	Right of use KShs '000	Total KShs '000
Cost							
As at 1 January 2021	1,010,733	88,744	36,927	204,175	8,676	93,727	1,442,982
Transfer from work in progress	-	8,676	-	-	(8,676)	-	-
Adjustments	(940)	205	-	(179)	(9,596)	260	(10,250)
Additions	14,669	15,753	-	17,620	12,844	-	60,886
Disposals/Write off	-	(113)	-	(25,351)	-	-	(25,464)
As at 31 December 2021	**1,024,462**	**113,265**	**36,927**	**196,265**	**3,248**	**93,987**	**1,468,154**
Depreciation							
As at 1 January 2021	526,032	73,692	23,564	131,216	-	26,296	780,800
Charge for the year	52,321	9,927	6,301	29,419	-	13,281	111,249
Disposal/write-off	-	(113)	-	(25,188)	-	-	(25,301)
As at 31 December 2021	**578,353**	**83,506**	**29,865**	**135,447**	**-**	**39,577**	**866,748**
Carrying Amount							
As at 31 December 2021	**446,109**	**29,759**	**7,062**	**60,818**	**3,248**	**54,410**	**601,406**

Included in property and equipment are assets with a gross value of Kshs 1,361,786,332.30 (2021 – Kshs 223,935,398 which are fully depreciated but still in use. Such assets would have a notional depreciation of KShs 152,306,054 (2021- KShs 58,542,430).

21. DEFERRED TAX

The deferred tax asset at 31 December 2022 and 31 December 2021 is attributable to temporary differences in the carrying amounts of certain items for accounting and taxation purposes respectively, as specified below:

2022	As at 1 January 2022 KShs '000	Recognized in income statement KShs '000	Recognized in equity KShs '000	At 31 December 2022 KShs '000
Arising from:				
Property and equipment	(115,554)	(2,685)	-	(118,239)
Fair value reserve	55,389	-	(30,078)	25,311
General provision for expenses	(65,140)	(32,799)	-	(97,939)
Equity compensation	(38,069)	(3,065)	-	(41,134)
Bad debts provision	(165,972)	(220,171)	-	(386,143)
	(329,346)	**(258,720)**	**30,078**	**(618,144)**

2021	As at 1 January 2021 KShs '000	Recognized in income statement KShs '000	Recognized in equity KShs '000	At 31 December 2021 KShs '000
Arising from:				
Property and equipment	(111,137)	(4,417)	-	(115,554)
Fair value reserve	64,022	-	(8,633)	55,389
General provision for expenses	(61,047)	(4,093)	-	(65,140)
Equity compensation	(32,415)	(5,654)	-	(38,069)
Bad debts provision	(219,485)	53,513	-	(165,972)
	(360,062)	**39,349**	**(8,633)**	**(329,346)**

22. DEPOSITS FROM OTHER BANKS AND BANKING INSTITUTIONS

	2022 KShs '000	2021 KShs '000
Payable within 90 days	2,288,147	7,680,916
Payable above 90 days	134,285	667,785
	2,422,432	**8,348,701**

These are mainly deposits from local banks and banking institutions which had a weighted average interest rate of 7.80% as at 31 December 2022 (2021 – 0.00%).

23. CUSTOMER DEPOSITS

	2022 KShs '000	2021 KShs '000
Resident – Foreign currency accounts	55,295,478	52,117,959
Private enterprises	42,129,336	33,319,778
Non-profit institutions and individuals	1,950,166	1,995,882
Non-financial public enterprises	10,664,810	10,996,179
	110,039,790	**98,429,798**

These are mainly current account balances or term deposits held for customers which had a weighted average interest rate of 3.72% as at 31 December 2022 (2021 – 3.73%).

24. (a) OTHER LIABILITIES

	2022 KShs '000	2021 KShs '000
Bills payable	320,541	221,189
Sundry unclaimed items	610,888	819,629
Accrued expenses and other payables	621,847	479,677
	1,553,276	**1,520,495**

(b) LEASE LIABILITIES

	2022 KShs '000	2021 KShs '000
Lease liabilities	**50,622**	**61,596**

25. EQUITY

(a) Assigned Capital

The parent's capital assigned to Kenya branches was Kshs 4,582,975,000 (2020 –Kshs 4,582,975,000), which meets the minimum core capital requirement of Kshs. 1,billion (2021- KShs 1 billion) in compliance with the Banking Act.

(b) Fair value reserve

This comprises the fair value movements in FVOCI instruments excluding impairment losses and the transfers when the instruments are derecognised. The amount is presented net of the deferred tax effect.

(c) Statutory credit risk reserve

Where impairment losses required by legislation or regulations exceed those computed under IFRS Standards, the excess is recognised as a statutory reserve and accounted for as an appropriation of retained profits. These reserves are not distributable.

(d) Equity compensation reserve

This comprises the fair value of share-based payment awards granted to employees.

26. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to net cash flows from operating activities	2022 KShs '000	2021 KShs '000
Profit before taxation	**9,853,762**	**5,838,997**
Adjustments for:		
Depreciation (note 20)	100,477	97,968
Amortisation of right of use asset (Note 20)	15,448	13,281
Equity compensation provision	7,247	14,709
Loss on sale of property and equipment (Note 9)	2,764	164
Write off of property and equipment (Note 20)	8,574	10,250
Interest on lease liabilities (Note 27 (iii))	1,734	1,405
Translation difference on IFRS 16 (Note 28)	1,800	6,597
	9,991,806	**5,983,351**
Decrease/(increase)in operating assets		
Balances with Central Bank of Kenya		
Cash Reserve Ratio (CRR) and blocked funds	(444,472)	(807,971)
FVOCI Instruments	(8,994,215)	5,102,229
Derivative instruments	(14,879)	(8,150)
Loans and advances to customers	2,396,102	(14,167,964)
Other assets	(315,868)	(104,624)
	(7,373,332)	**(9,986,480)**
(Decrease)/increase in operating liabilities		
Customer deposits	11,609,992	19,236,558
Derivative instruments	(43,263)	(78,969)
Other liabilities	32,780	(704,034)
	11,599,509	**18,453,555**
Cash generated for operating activities	**14,217,983**	**14,450,426**
Taxation paid	(2,538,166)	(2,721,024)
Net cash generated for operating activities	**11,679,817**	**11,729,402**

(b) Analyses of cash and cash equivalents	2022 KShs '000	2021 KShs '000	Change in the year KShs '000
Cash and available balances with Central Bank of Kenya (Note 13)	14,330,895	7,854,947	6,475,948
Placements with other banks (Note 16)	175	272	(97)
Balances due from foreign branches	17,156,122	21,460,651	(4,304,529)
Deposits from CBK and other banks and banking institutions	(2,422,432)	(8,348,701)	5,926,269
	29,064,760	**20,967,169**	**8,097,591**

27. LEASES

Right of Use Assets

	2022 KShs '000	2021 KShs '000
Balance as at 1 January	93,987	93,727
Adjustments	(8,822)	260
Balance as at 31 December	**85,165**	**93,987**
Depreciation as at 1 January	(39,577)	(26,296)
Depreciation for the year	(15,448)	(13,281)
As at 31 December	**(55,025)**	**(39,577)**
Carrying Value at 31 December	**30,140**	**54,410**

Lease Liabilities

(i) Maturity analysis-Contractual cashflows

	2022 KShs '000	2021 KShs '000
Expected to be settled within 12 months after the year end	16,546	14,518
Expected to be settled more than 12 months after the year end	34,076	47,078
	50,622	**61,596**

(ii) Amounts recognised in statement of cash flows:

	2022 KShs '000	2021 KShs '000
Payments of principal portion of the lease liability	14,508	13,005
Interest paid on lease liabilities	1,734	1,405
	16,243	**14,410**

(iii) Movement for the year ended 31 December

	2022 KShs '000	2021 KShs '000
At 1 January	61,596	69,409
Interest on lease liability	1,734	1,405
Lease payments	(14,508)	(13,005)
Translation difference	1,800	3,787
31 December	**50,622**	**61,596**

(iv) Amounts recognised in profit or loss

Leases under IFRS 16

	2022 KShs '000	2021 KShs '000
Interest on lease liabilities	1,734	1,405
Depreciation of right to use asset	15,448	13,281
Expenses relating to short-term leases	5,340	5,340
	22,522	**20,026**

27. LEASES (Continued)

(v) Extension options

The lease of office premises contains an extension option exercisable by the Bank up to one term after the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension option. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

28. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

(a) Letter of credit, guarantees and acceptances

In the ordinary course of business, the bank conducts business involving guarantees, acceptances and letters of credit. These facilities are offset by corresponding obligations of third parties. At year end, the contingencies were as follows

	2022 KShs '000	2021 KShs '000
Letters of credit	2,500,747	1,103,158
Guarantees	10,695,806	10,778,887
Acceptances	4,776,090	3,708,413
Unused Commitments	2,933,691	5,080,185
	20,906,334	**20,670,643**

Nature of contingent liabilities

Letters of credit commit the bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

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

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The bank expects most acceptances to be presented, and reimbursement by the customer is almost immediate.

At the year end, commitments were as follows:

Commitments

	2022 KShs '000	2021 KShs '000
Outstanding spot foreign exchange contracts	2,143	6,412,544
Outstanding forward foreign exchange contracts	**22,333,438**	**7,921,836**

Spot contracts involve the purchase and sale of foreign currencies for delivery and payment within two business days.

28. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (Continued)

(a) Letter of credit, guarantees and acceptances (continued)

Foreign exchange forward contracts are agreements to buy and sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

A currency option is an agreement between two counter-parties, giving the option buyer (option holder) the right, but not the obligation, either to buy or to sell a quantity of currency at a specified rate, on or before a specified date in the future.

(b) Kenya Revenue Authority

Kenya Revenue Authority (KRA) issued an excise duty assessment against the bank for the period covering 2013 to 2016 demanding tax payable amounts of Kshs 128,968,791 comprising of principal tax of Kshs 72,304,437 plus penalty and interest of Kshs 54,853,152. The Bank disputed the assessment and matter was referred to the dispute resolution team (ADR). No agreement was reached at the ADR and case was filed in the Tax Appeal Tribunal (TAT). Judgement was delivered on May 13, 2021 in favour of the Bank following which, KRA appealed to the High Court. Both parties have completed and delivered their submissions to the High Court. Ruling from the High Court set for 18th of November 2022 was postponed and still outstanding of the date of this report.

29. ASETS PLEDGED AS SECURITY

As at 31 December 2022- Nil (2021-Nil), there were no assets pledged by the bank to secure liabilities and there were no secured bank liabilities.

30. RELATED PARTY TRANSACTIONS

(a) Transactions with other Citibank branches and subsidiaries

In the normal course of business, transactions are entered into with other branches and subsidiaries of Citibank N.A, the parent company. During the year, the bank had recoveries expenses/amounting to KShs 388,759,488 (2021 - KShs 474,697,306 to other Citibank branches and subsidiaries. These transactions were carried out at arm's length.

The balances due from Citibank foreign branches are as disclosed under Note 17.

(b) Key Management personnel Transaction

The Bank has entered into transactions with its employees:

	2022 KShs '000	2021 KShs '000
Staff loans to Key management	**78,599**	**76,424**

Interest earned on loans to key management amounted to KShs 5,018,886 (2021– Kshs 4,961,809).

30. RELATED PARTY TRANSACTIONS (Continued)

(b) Key Management personnel Transaction (continued)

Interest rates charged on balances outstanding from employees are determined by the Senior Human Resource Committee and are granted at a discounted market interest rate. The mortgages and secured loans granted are secured over property and other assets of the respective borrowers.

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.

(c) Key management compensation

Compensation of the Bank's key management personnel includes salaries, bonuses, non-cash benefits and contributions for retirement benefits under a defined contribution plan. Some bank officers also participate in the Group's share option programme.

	2022 KShs '000	2021 KShs '000
Short-term employee benefits;	376,325	488,308
Other long-term benefits;	25,701	25,189
	402,026	**513,497**

31. PARENT COMPANY

The Bank is a branch of Citibank N.A, a national banking association formed under the laws of the United States of America. The ultimate holding Bank of the parent is Citigroup Inc., which is publicly listed on the NYSE.

32. EVENT AFTER THE REPORTING PERIOD

There were no significant events after the reporting date.