SMEP Microfinance Bank PLC
Annual Report and Financial Statements

2022


smep Microfinance Bank
Cafe
..SAVE KIDOGO KIDOGO
TO FULFILL YOUR END OF YEAR PRESSING TARGETS LIKE:
•School Fees
•Holiday Trip
•Boost your Business, ...
The 52week Challenge is now available on our Cash Kash App & *635#
Cash Kash
Saving made simpler & More rewarding
GET IT ON Google Play
GROW YOUR SAVINGS
The aim is reaching achievable amounts of:
Ksh. 34,450
Ksh. 68,900
Ksh. 137,800 or MORE!
by spreading it throughout the year.
52 WEEK SAVING CHALLENGE
THE 5TH EDITION
Customer Care: 0711 606 900
Regulated by the Central Bank of Kenya and Member, KDIC

SMEP Microfinance Bank Limited is a public limited company incorporate under the companies Act (Cap 486) and licensed under the Microfinance Act (Cap 493D) regulated by The Central Bank of Kenya to offer banking services focusing on Group (Microfinance) banking and SME & Church banking. SMEP has a subsidiary company, SMEP Insurance Agency, which provides insurance services to diverse customer insurance needs.

Vision

A dynamic Christian provider of financial solutions transforming lives.

Mission

To empower our members through provision of market driven financial services.

Core Values

- Consistency
- Integrity
- Teamwork
- Excellence
- Simplicity

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CORPORATE INFORMATION

Board of directors

Dr. Nelson Kuria	-	Chairperson
Rev. Canon Peter Karanja		
Rev. Canon Chris Kinyanjui		
Ms. Jane Wangare Ngugi		
Mr. John Thiong'o		
Mr. James Nyokangi		
Mr. Lawrence Kibet	-	Secretary
Mr. Symon Kamore	-	Chief Executive Officer

Chief Executive Officer

Mr. Symon Kamore

Credit Committee

Mr. James Nyokangi	-	Chairperson
Ms. Jane Wangare Ngugi		

Audit and Risk Committee

Mr. John Thiong'o	-	Chairperson
Rev. Canon Peter Karanja		
Ms. Jane Wangare Ngugi		

Finance and Strategy Committee

Rev. Canon Peter Karanja	-	Chairperson
Dr. Nelson Kuria		
Ms. Jane Wangare Ngugi		
Mr. James Nyokangi		
Mr. John Thiong'o		
Rev. Canon Chris Kinyanjui		
Mr. Symon Kamore		

Human Resource and Governance Committee

Rev. Canon Chris Kinyanjui	-	Chairperson
Mr. Symon Kamore		

Staff Retirement Scheme

Ms. Jane Wangare Ngugi	-	Chairperson
Mr. Symon Kamore	-	Trustee

Kirichwa Road
L.R 2/187
P.O. Box 64063 - 00620
Nairobi.

Company Secretary

Image Registrars
Certified Public Secretaries
5th Floor, Barclays Plaza, Loita Street
Nairobi.

Principal bankers

Co-operative Bank of Kenya,
China Centre, Ngong Road,
P.O. Box 48231 - 00200,
Nairobi.

Kingdom Bank Limited,
Koinange Street Branch,
P. O. Box 22741 - 00400,
Nairobi.

KCB Group Limited,
Moi Avenue Branch,
P.O. Box 30081 - 00200,
Nairobi.

Middle East Kenya Bank Limited
Milimani Branch
P. O. Box 47387 - 00100,
Nairobi.

Independent auditor

MAZARS LLP,
Certified Public Accountants (K),
3rd Floor, The Green House, NAIROBI.
Ngong Road.
P.O. Box 61120 - 00200,
City Square, Nairobi. KENYA
Telephone : +254 (020) 3861175/76/79
Wireless : +254 (020) 2517101/3
Mobile : +254 722 440270
Fax : +254 (02) 3861169
Email : contact@mazars.co.ke
Website : www.mazars.co.ke

OUR

1975

Started out as a relief arm of the National Council of Churches of Kenya (NCCK)

1999

Registered as a company limited by guarantee under the name Small and Microenterprise Programme (SMEP)

2008

Rebranded to SMEP and dropped the long name Small and Microenterprise Programme

2010

Became the 3rd microfinance institution (MFI) in Kenya to be awarded a nationwide Deposit Taking Microfinance licence by CBK

2011

Launched SMEP mobile banking system. SMEP customers can transact using their mobile phones

2012

The first MFI in Africa and second in the world to launch a VISA debit card to customers

2012

The first MFI in Kenya to obtain a nod by Capital Market Authority to raise capital through private placement offer

MILESTONES

2018
Launched mobile wallet dubbed *CashKash*

2015
Opens SMEP Insurance Agency supported by 35 Marketing Units and over 50 SMEP Agents across the country

2013
SMEP DTM changes name to SMEP Microfinance Bank as per The Microfinance Amendment Act 2013

2017
Launched *52 weeks savings challenge*

2019
upgraded the core banking system to Temenos IBS18

2021

Voted Overall
Best Microfinance Bank

Think BUSINESS BANKING AWARDS 2021

NOTICE OF THE 12TH ANNUAL GENERAL MEETING

Notice is hereby given that the 12th Annual General Meeting of the shareholders of SMEP Microfinance Bank ("Company") will be held via electronic communication, on Friday, 5th May, 2023 at 2.30 p.m. when the business set out below will be transacted.

Shareholders will not be able to attend the meeting in person but will be able to register for, access relevant information, follow the meeting in the manner detailed below and vote electronically or by proxy. Shareholders may ask questions in advance of the meeting as detailed in the instructions below.

AGENDA

1. To read the notice convening the Meeting and determine if a quorum is present
2. To receive, consider and if approved, adopt the Company's audited financial statements for the year ended 31 December 2022, together with the reports of the Chairman, Directors and Auditors thereon.
3. To note that the Directors do not recommend the payment of a dividend for the Financial Year under review
4. Election of Directors
   a) **Rotation of Directors**: In accordance with Article 111 of the Company's Articles of Association, the following Directors retire by rotation and being eligible, offer themselves for re-election

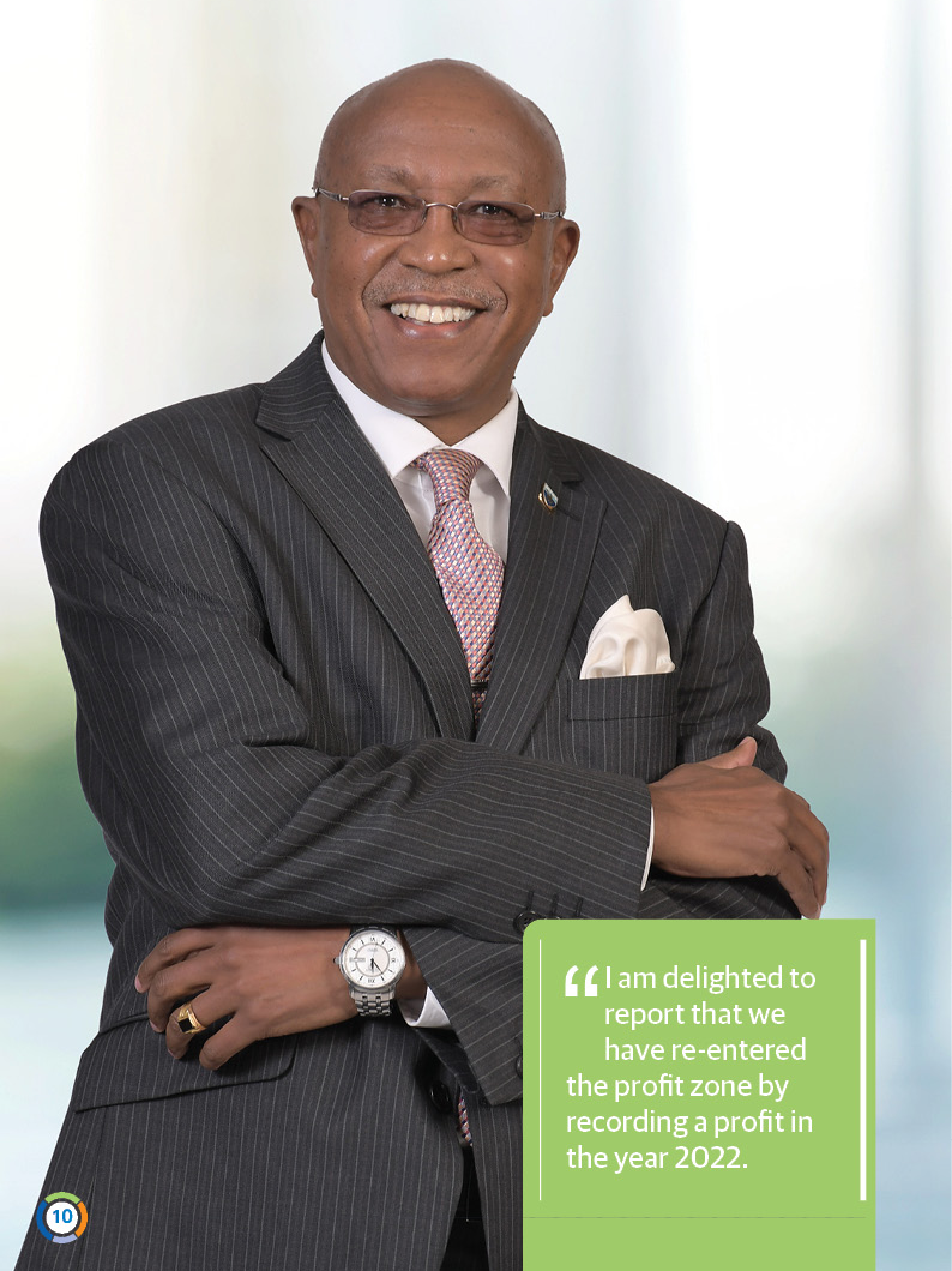
      i. Canon Chris Kinyanjui Kamau

      ii. Mr. James Jeremiah Nyokang'i
5. To note that auditors Mazars will continue in office in accordance with the provisions of Section 721(2) of the Companies Act, 2015 and to authorize the Directors to fix their remuneration for the ensuing financial year.
6. To approve the remuneration of Directors for the period ended 31st December 2022.

By Order of the Board

CS. LAWRENCE KIBET
COMPANY SECRETARY
IMAGE REGISTRARS LIMITED


STOP
...YOUR CAR PROTECTS YOU
but who protects your car?
Enjoy affordable car insurance with
SMEP INSURANCE AGENCY!
THE FOLLOWING POLICIES APPLY TO MOTOR VEHICLE CLASS OF INSURANCE:
Motor private vehicles
Motor commercial vehicles
• Commercial own goods
• Commercial general cartage
• PSV/Taxi
• Tour Vans
• Institutional vehicles e.g. churches, schools, staff
• Agriculture & forestry vehicles
Motorcycles
Vehicles of special construction
• Ambulances
• Hearses
• Road rollers
• Mobile canteens
• Tractors
INSURANCE PREMIUM FINANCING
ALSO AVAILABLE AT VERY COMPETITIVE INTEREST RATES!
smep Microfinance Bank
Regulated by the Central Bank of Kenya and Member, KDIC
@smepMFB
SMEP Microfinance Bank
info@smep.co.ke
www.smep.co.ke



"I am delighted to report that we have re-entered the profit zone by recording a profit in the year 2022.

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is with much pleasure that I present to you the Financial Statements and Annual Report for the period ended 31st December 2022. I would like to take this opportunity to update you on the progress we have made over the past year.

Operating and Economic Environment

According to the World Bank report, Kenya's economy continued to rebound from the pandemic in 2022 with real gross domestic product (GDP) increasing by 6% year-on-year in the first half of 2022, driven by broad-based increases in services and industry. This recovery was dampened by global commodity price shocks, the long drought in the region, and uncertainty in the run up to the 2022 general elections.

However, despite these challenges, at SMEP Microfinance Bank we have remained committed to our goals and have continued with efforts to grow our business. In order to adapt to the changing economic and political environment, we implemented several measures to ensure business continuity, such as adopting remote work arrangements, increasing our online presence, and leveraging technology to enhance operational efficiency. Despite the challenging environment, we remain optimistic about the future and believe that Kenya's economy will rebound strongly in the coming years with increased opportunities for our business.

Success in getting a strategic partner.

We are pleased to announce that after a long search we have successfully secured an appropriate strategic partner. This is a significant milestone for our business, as it will provide us with the necessary resources and impetus to accelerate our growth and expand our operations. Our strategic partner, HOPE INTERNATIONAL, is a reputable global faith - based microfinance institution with a proven track record of success. They share our vision and mission and are committed to supporting us in achieving our goals. With their expertise and resources, we are confident that we shall be able to take our business to the next level and deliver even greater value to our stakeholders.

Reorganisation of the Board of Directors

With the coming in of Hope International as a Strategic Partner with 51% shareholding, we shall have their representatives as new board members joining the Board of Directors of SMEP Microfinance Bank PLC. This will ensure that we have diverse backgrounds and expertise, and fresh perspectives and ideas will be brought into the Board. We believe that this will strengthen our capacity to navigate the complex business environment and enable us to deliver sustainable growth. Furthermore, this will help to consolidate the effectiveness of the measures that we have been implementing in the past with the aim of enhancing transparency and accountability of our board, improving our reporting and communication channels, and establishing clear guidelines for ethical conduct and management of conflict of interest.

Profitability

Despite the challenging economic environment, we remained focused on delivering value to our customers and shareholders. We optimized our operations, managed our costs effectively, and pursued strategic growth opportunities that aligned with our vision and values. As a result of these efforts, I am delighted to report that we have re-entered the profit zone by recording a profit in the year 2022. This is a testament to the effective guidance of the Board and the hard work and dedication of management and staff, and the resilience of our business model. The outcome also reflects our commitment to sustainable growth and the ability to adapt to changing market conditions.

Financial Results and Highlights

The highlights of the Bank's financial performance are as tabled below:

	2017	2018	2019	2020	2021	2022
Total Income	562M	653M	837M	620M	658M	684M
Total Assets	2.73B	2.94B	3.3B	3.40B	3.4B	3.2B
Customer Deposits	1.6B	1.9B	2.14B	2.39B	2.36B	2.24B
Loans to Customers (net)	1.67B	1.65B	1.68B	1.76B	1.5B	1.4B
Net Profit before Taxes	-120.1M	-15.9M	19.49M	-98M	-58M	10.8M

The Board of Directors recommends that no dividend is paid for the year. This is because, despite the improved performance and modest profit, our Bank is still recovering from a trail of past losses. However, believe that we have now come out of the worst situation and with sustained growth and improvement in performance we should be able to pay a dividend in the future.

Conclusion

In conclusion, I would like to express my gratitude to my fellow directors, customers and shareholders for their continued support. Equally I commend management and staff for their hard work, loyalty and commitment. It is also appropriate for me to acknowledge the great support and understanding extended to us by the Central Bank of Kenya, our regulator.

Finally, I exhort all of us to remain committed to delivering sustainable growth and creating value for our stakeholders. For the Board and management, we will continue to pursue our strategic goals with determination and agility, leveraging our strengths and resources to seize opportunities and overcome challenges.

Thank you.

Dr. Nelson C. Kuria, OGW, MBS, F.IoDK
Chairman of the Board

BOARD OF DIRECTORS

Dr. Nelson Kuria
Chairman

Mr. Lawrence Kibet
Company Secretary

Rev. Canon Chris Kinyanjui
General Secretary, NCCK

Rev. Canon Peter Karanja
Non Executive Director

Mr. James Nyokangi
Non Executive Director

Mr. John Thiongo
Non Executive Director

Ms. Jane Wangare Ngugi
Non Executive Director

Symon Kamore
Chief Executive Officer

GENERAL SECRETARY'S STATEMENT

Esteemed shareholder, on behalf of the National Council of Churches of Kenya (NCCK), we would like to express our gratitude for your continued support of SMEP Microfinance Bank. Your investment has enabled SMEP to serve its customers and stakeholders with excellence. Together, our dreams of transforming lives and fulfilling dreams of the people continues to be realized.

NCCK is excited to welcome Hope International on board as our strategic partner. The partnership marks a significant milestone for SMEP. We believe that it will bring tremendous benefits to our customers, shareholders, and other stakeholders. By leveraging the strengths and resources of Hope International, we can enhance SMEP's capabilities, expand its reach, and better serve its customers. We also appreciate the alignment of the vision and missions of both organisations which place Jesus Christ at the center of our life and work. Hope International's mission is to invest in the dreams of families in the world's underserved communities as they proclaim and live the Gospel. NCCK Mission is holistic transformation of lives for a just, resilient and sustainable society.

NCCK will now hold a 34 percent shareholding in SMEP, while the rest of the shares will be ceded to Hope International not only for regulatory and strategic reasons but to grow shareholder value. We assure you that this decision was made after careful consideration of the best interests of the shareholders. We believe in Ecclesiastes 4:12 that "Though one may be overpowered, two can defend themselves. A cord of three strands is not quickly broken".

NCCK values the your investment and your trust in the SMEP brand. We are committed to ensuring that you receive a fair return on your investment, and we will work closely with Hope International to achieve this objective. We believe that the partnership will create opportunities for growth, profitability, and impact, and we are confident that it will benefit our shareholders in the long run.

Kenya's economy has been adversely affected by both internal and external factors. The cost of living continues to be a concern for most people. In this scenario, our hope lies in supporting the people at the bottom of the pyramid to not only have hope but power their dreams by investing in their small and micro enterprises. SMEP has done this for years offering a lifeline for families and dignified livelihood for young people.

In Colossians 2:6-7, the Apostle Paul encourages us to "continue to live in Christ, rooted and built up in him, strengthened in the faith as you were taught, and overflowing with thankfulness." We are grateful for the blessings that SMEP has received over the years, and we believe that this partnership is a testimony to God's faithfulness and provision.

We believe that the future is bright. "Trust in the Lord with all your heart and lean not on your own understanding; in all your ways submit to him, and he will make your paths straight." The words from Proverbs 3:5-6 should fuel our faith and strengthen our hands for the work ahead. We may not know what the future holds, but we trust in God's plan and purpose not only for SMEP but for all of our shareholders. Let us submit to God's guidance and wisdom, He will guide us to the paths of peace and prosperity.

In conclusion, we want to reiterate our commitment to SMEP's mission and vision. We thank you once again for your trust and faith in SMEP. God bless SMEP, God Bless you all.

Rev. Canon Chris Kinyanjui, General Secretary,
National Council of Churches of Kenya

> "We are committed to ensuring that you receive a fair return on your investment, and we will work closely with Hope International to achieve this objective.

CEO'S STATEMENT

Market Environment in Kenya

The Kenyan market environment has been challenging in the past year, with the after-effects of COVID-19 pandemic. The Kenya shilling has been on a downward trend against the US Dollar, which has affected the cost of doing business. The resultant inflation has greatly eroded the purchasing power of our customers. Despite these challenges, we have remained committed to serving our customers and stakeholders and continued to pursue our vision and mission.

We have observed a shift in customer behavior and preferences, with many customers embracing digital channels and seeking more value-added services. In response, we have invested in digital technologies, expanded our product and service offerings, and strengthened our customer engagement and support capabilities. These efforts have helped us to stay relevant and competitive in the market and to deliver value to our customers.

Income Growth

I am delighted to report that we achieved significant revenue growth over the past year, driven by our focus on delivering value to our customers and expanding our customer base. Our overall revenue increased by 4% to Kshs. 684M compared to the previous year's Kshs. 658M.This growth is a testament to the strength and resilience of our business.

One of the key drivers to our revenue growth was the introduction of Trade Finance and starting of a subsidiary, SMEP Bancassurance Intermediary Limited to carry out Bancassurance Business. These two strategic initiatives contributed to 57% growth of other Operating incomes from Kshs 67.4 M in year 2021 to Kshs 103.9 M in year 2022. By offering more comprehensive and value-added services, we have been able to enhance our competitiveness in the market and provide greater value to our customers. We have also strengthened our sales and marketing capabilities, increased our market penetration, and improved our customer retention rates.

Financial Performance

It is with great pleasure that I present to you the SMEP Microfinance Bank PLC Financial Statements and Annual report for the year ended 31st December 2023.

I am pleased to report that we recorded a pre-tax profit of Ksh10.8m during the past year compared to a loss of 58.4 M in year 2021. This translates to 119% growth in profitability. This achievement was the result of our continued focus on operational efficiency, cost management, and revenue growth.

We have streamlined our processes, optimized our resources, and reduced our interest expenses by 19% to improve our bottom line. We have also invested in our staff training and development to enhance their productivity and performance.

Our performance has been summarized in the table & graph below:

	2017	2018	2019	2020	2021	2022
Total Income	562M	653M	837M	620M	658M	684M
Total Assets	2.73B	2.94B	3.3B	3.40B	3.4B	3.2B
Customer Deposits	1.6B	1.9B	2.14B	2.39B	2.36B	2.24B
Loans to Customers (net)	1.67B	1.65B	1.68B	1.76B	1.5B	1.4B
Net Profit before Taxes	-120.1M	-15.9M	19.49M	-98M	-58M	10.8M

Strategic Partnership

As announced by our Board Chair, we are thrilled to have Hope International onboard. This partnership will enable us to leverage Hope International's expertise and resources to expand our reach, enhance our capabilities, and better serve our customers.

Through this partnership, we aim to develop innovative products and services that meet the evolving needs of our customers, expand our distribution channels, and improve our operational efficiency. We also hope to leverage Hope International's experience in social impact and community development to create sustainable value for our stakeholders.

We also believe that the partnership will create synergies and opportunities for collaboration, knowledge sharing, and capacity building. We will work closely with Hope International to identify and pursue joint initiatives that create value and impact for our stakeholders.

Focus on Recovery

Looking ahead, we remain focused on recovery in the year 2023. We recognize that the high inflation and prolonged drought and other related challenges will continue to affect our business and operations. However, we are confident in our ability to adapt, innovate, and overcome these challenges. We will continue to pursue our strategic goals with determination and focus, leveraging our strengths and resources to overcome challenges and seize opportunities. We are committed to delivering sustainable growth and creating value for our stakeholders.

Conclusion

In conclusion, I want to express my appreciation to our shareholders, the Board of Directors, customers, employees, and stakeholders for their continued support. We believe that by working together, we shall navigate the challenges ahead and achieve our long-term objectives.

Thank you & God bless!

Symon Kamore, CPA, MBA, B.Ed (Sci), CISA
Chief Executive Officer, SMEP Microfinance Bank PLC


...Tendering
MADE EASIER WITH smep
TRADE FINANCE SOLUTIONS
Trade finance
We customise our financing solutions to fit your immediate and long-term business needs.
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info@smep.co.ke
www.smep.co.ke

FINANCIAL STATEMENTS

TOWARDS FINANCIAL FREEDOM

REPORT OF THE DIRECTORS

The Directors submit their report and the audited financial statements for the period ended 31 December 2022, which show the state of SMEP Microfinance Bank Public Limited Company and subsidiary (the "group")

1 Incorporation

The Company is incorporated in Kenya under the Companies Act. It is a public limited liability company domiciled in Kenya. The company's subsidiary provide insurance agency services. The address of the registered office is as set out on page 1.

2 Principal activity

The Company's mission is to empower members through provision of market driven financial services. The principal activity of the bank is to provide microfinance services through provision of loans to micro, small entrepreneurs, churches and deposit taking from the public. The company's subsidiary provide insurance agency services.

3 Results for the year

	2022 Kshs '000' Group	2022 Kshs '000' Bank	2021 Kshs '000' Bank
Net loss before tax	10,863	3,494	(58,496)
Tax credit/(charge)	(3,335)	(974)	12,120
Net loss after tax transferred to reserves	7,528	2,520	(46,376)

4 Business review

Kenya's Banking Industry

The Kenyan Banking Sector recorded growth, whereby the aggregate balance sheet stood at Ksh.6,596.6 billion, Gross loans at Ksh.3,677.3 billion and Total deposits increased Ksh.4,730.1 billion in December 2022 for the period ending December 2022. The reported growth was largely witnessed in the Manufacturing, Personal and Household, and Real Estate sectors. The increase in gross loans was mainly due to increased credit granted for working capital purposes, and loans granted to individual borrowers.

The economy recorded strong performance in the third quarter of 2022, growing by 4.7 percent. Services continue to perform strongly, particularly wholesale and retail trade, and accommodation and food services. The manufacturing sector grew at 2.4 percent. However, performance of the agriculture sector continued to be subdued due to unfavorable weather conditions. Overall inflation declined further to 9.1 percent in December 2022 from 9.5 percent in November due to easing food prices with the favorable rains and declining of international prices of edible oils. Food inflation declined to 13.8 percent from 15.4 percent in November. (Central Bank of Kenya, 2022)

Company Review

Smep Microfinance Bank Public Limited Company has maintained its growth trajectory by reporting increasing profit before tax of Kshs.10.8 million for the period ending 31st December 2022 from a loss of Kshs.58.9 million for the same period in 2021.

Future Outlook

The major priorities continue to be sustaining the expansion of the loan book and lowering the proportion of non-performing loans, which will increase interest revenue and eliminate the need for further loan impairment provisions. As long as the bank keeps its focus on other revenue streams and enhances its present digitalization infrastructure and initiatives, it will be able to capitalize on evolving market dynamics and sustain growth. In order to further carve out a position for itself as Kenya's church banker, the bank continues to concentrate on creating tailored products and services that serve to this unique market sector.

The company's transformation requirements demand a comprehensive, all-encompassing change management approach that incorporates fundamental corporate values. Because of this, SMEP MFB plans to dominate its niche market and restructure its operations to maintain its robustness in the face of changing economic dynamics.

5 Dividends

The Directors do not recommend the payment of dividends in respect of the year ended 31 December 2022 (2021: Nil)

6 Financial statements

At the date of this report, the directors were not aware of any circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

7 Accumulated losses

The accumulated losses of the company are set out in note 28 to these financial statements.

8 Directors

The Directors who held office during the year and to the date of this report are listed on page 1.

9 Corporate Governance Statement

SMEP Microfinance Bank Public Limited Company is committed to the standards of world-class corporate governance as set in Microfinance Act 2006, Kenya Companies Act, the Central Bank of Kenya and by itself in conformity to the international Best Practice. The Board of Directors is responsible for the long-term direction for the profitable growth of the company whilst being accounted to the shareholders for legal compliance and maintenance of the highest corporate governance standards and business ethics.

Board Committees

The Board is responsible for drawing and implementing strategies for the success of the company, establishing and maintaining the company's system of internal controls so that the objectives of profitability and sustainable growth and shareholders' value growth are fully realized.

The Board is made up of 7 non-executive directors and 1 executive director i.e Chief Executive Officer.

1 Dr. Nelson Kuria - Chairperson
2 Rev. Canon Peter Karanja
3 Rev. Canon Chris Kinyanjui
4 Ms. Jane Wangare Ngugi
5 Mr. John Thiong'o
6 Mr. James Nyokangi
7 Mr. Lawrence Kibet - Secretary
8 Mr. Symon Kamore - Chief Executive Officer

Board Meetings

The Board of Directors meets on quarterly basis to monitor the implementation of the company's planned strategy, review it in conjunction with its financial and budgetary performance and approve issues of strategic nature. Specific reviews are also undertaken on operational issues and future planning.

The Board held 4 meetings during the year under review.

Board Committee

The Board has constituted committees which meet regularly namely Audit and Risk Management Committee, Finance and Strategy Committee, Human Resource and Governance Committee and Credit Committee. The terms of reference for each committee are well set by the board.

(a) Audit Committee

The Audit Committee meets on quarterly basis. The Committee comprises 3 non-executive members of the Board who are independent of the day-to-day management of the company's operations.

The following are the members of the committee:

Mr. John Thiong'o - Chairperson
Rev. Canon Peter Karanja
Ms. Jane Wangare Ngugi

The Internal Audit Manager is the secretary to the committee.

The committee;

a. Reviews and monitors the integrity of the company's annual and interim financial statements.
b. Considers the appropriateness of the company's accounting policies and procedures.
c. Monitors and assesses the role and effectiveness of the internal audit function.
d. Deals with matters relating to appointment, remuneration and resignation or dismissal of external auditors.
e. Ensures implementation of the ERM Framework in a systematic, timely and effective manner.
f. Reviews, monitors, interrogates and reports to the Board on the risk management information, with references to Key Risk Indicator (KRI) information.

The committee held 4 meetings during the year under review.

(b) Credit Committee

The Committee meets on quarterly basis or as required to review the credit risk profile of the company and recommend for Board approval policies and standards for the credit risk governance and management.

The committee comprises the following directors:

1 Mr. James Nyokangi -Chairperson
2 Ms. Jane Wangare Ngugi

The Head of credit is the secretary to the committee.

The committee;

a. Reviews and oversees the overall credit policy.
b. Considers all loan applications above the management lending limits.
c. Handles all matters relating to credit risk management.

The committee held 4 meetings during the year under review.

(c) Finance and Strategy Committee

This Committee meets on a quarterly basis whose mandate is to support the board in driving strategy to ensure achievement of the company's financial and other goals.

The committee is comprised of the following directors:

1 Rev. Canon Peter Karanja -Chairperson
2 Dr. Nelson Kuria
3 Ms. Jane Wangare Ngugi
4 Mr. John Thiong'o
5 Mr. James Nyokangi
6 Rev. Canon Chris Kinyanjui
7 Mr. Symon Kamore

The mandate of the committee is:

a. To review, oversee implementation of, and make recommendations to the full board regarding all the aspects of the SMEP Strategic plan.
b. Review the relevance of the current strategy.
c. To monitor and review the performance of the bank against targets.
d. To review transformation proposals for the business.

The committee held 4 meetings during the year under review.

(d) Governance and Human Resource Committee

The Governance and HR committee is constituted to ensure the company's greatest asset (human resource) is well managed and that the company and its directors embrace good corporate governance in all their dealings.

The committee is comprised of the following directors:

1 Rev. Canon Chris Kinyanjui - Chairperson
2 Mr. Symon Kamore

The mandate of the committee is:

a. To review and monitor the implementation of the human resource policies and strategy in the organization.
b. To review the implementation of the Performance Management Tool.
c. To review and monitor the implementation of staff welfare especially on the Employee Share Ownership Plan.
d. To ensure that the staff pension scheme is properly administered.

The committee held 4 meetings during the year under review.

(a) Monitoring and Evaluation

The directors have a wide range of skills and experience and each contributes independent judgment and knowledge to the Board's discussion. They have developed self-assessments to monitor their roles and effectiveness in leading SMEP Microfinance Bank Public Limited Company to maximize performance in the light of the future strategy.

(b) Appointment of the Chief Executive

The Chief Executive is the accounting officer of SMEP Microfinance Bank Public Limited Company and is appointed by the Board with prior approval of the Central Bank of Kenya.

(c) Reckless and fraudulent activities

SMEP Microfinance Bank Public Limited Company has not allowed a credit facility or guarantees to be outstanding, incurred and liability, entered into any contract or transaction or conducted its business or part thereof in a fraudulent or reckless manner detrimental to her interest of depositors or the general public.

(d) Schemes of arrangement

No scheme of arrangement has been entered with our creditors.

(e) Restrictions on trading investments

SMEP Microfinance Bank Public Limited Company has not acquired or held, directly or indirectly, any part of the share capital of:- or have a beneficial interest in any financial, commercial, agricultural, industrial or other undertaking, where the value of SMEP Microfinance Bank Public Limited Company's interest exceeds twenty five percent (25%) in the aggregate of her core capital.

(f) Single borrower limit

SMEP Microfinance Bank Public Limited Company has extended fourteen (14) loan exceeding 5% of her core capital to a single end-user-borrower. All loans were performing as at the year end.

(g) Insider lending limits

SMEP Microfinance Bank Public Limited Company has not extended any advances or credit facility exceeding two percent (2%) of her core capital to significant shareholders and her directors.

(h) Know your customer requirements

The management of SMEP Microfinance Bank Public Limited Company has: -

i Maintained proper identification of customers wishing to open accounts or make transactions or to an engagement directly or indirectly through proxy.

ii Maintained adequate and accurate records for a minimum of seven years regarding its customers, sources of funds and transactions.

Board and Board committees attendance register

No. of meetings held	Board	AGM	Audit and Risk Committee	Credit Committee	Finance and Strategy Committee	HR and Governance Committee
Dr. Nelson Kuria	4	1	n/a	n/a	4	n/a
Rev. Canon Peter Karanja	4	1	4	n/a	4	n/a
Rev. Canon Chris Kinyanjui	4	1	n/a	n/a	4	4
Ms. Jane Wangare Ngugi	4	1	4	4	4	n/a
Mr. John Thiong'o	4	1	4	n/a	4	n/a
Mr. James Nyokangi	4	1	n/a	4	4	n/a
Mr. Lawrence Kibet	4	1	n/a	n/a	n/a	n/a
Mr. Symon Kamore	4	1	n/a	n/a	4	4

Management Committees

Management has constituted the Assets and Liabilities Committee which meets regularly. The terms of reference for each committee are well set by the management.

The Assets and Liabilities Committee which meets on a quarterly basis. The composition of the ALCO Committee of SMEP Microfinance Bank Public Limited Company consist of: -

1. Chief Executive Officer - Chairperson
2. Head of Finance and Strategy
3. Head of Business
4. Head of Human Resource & Administration
5. Chief Accountant
6. Team Leader Risk & Compliance
7. Head of Credit

Assets and Liabilities Committee (continued)

The Chief Accountant is the secretary for the committee. The Committee;

a. Reviews local and national economic forecasts.

b. Reviews and assesses the integrity of the internal and risk control systems;

c. Ensure that the risk policies and strategies are effectively managed;

d. Sets out the nature, role, responsibility and authority of the risk management function of SMEP Microfinance Bank Public Limited Company.

e. Provide an independent and objective oversight and review of the information raised by the management at different levels.

f. Monitors limits on loans to deposit and loans to capital ratios as well as the percentage on a deposit category as set by the board.

g. Monitors levels of maximum and minimum maturities for all categories of assets and liabilities as set by the board.

h. Monitors limits of the sensitivity of the net interest margin on changes in the market interest rates as set by the board;

i. Monitors maximum percentage imbalance between rates and sensitive assets and liabilities as set by the board.

j. Monitors limits of minimum liquidity provisions to be maintained to sustain operations while longer time adjustments are set by the board;

k. Monitors limits of minimum spread acceptable between costs and yields of liabilities and assets as set by the board;

l. Monitors source of funds;

m. Monitors SMEP Microfinance Bank Public Limited Company's policies, procedures and holding portfolios to ensure that it achieves its goals;

n. Generally, implements the funds management policy of SMEP Microfinance Bank Public Limited Company; and

o. Review an explanation of any known exceptions to this policy as well as an action plan and timetable bring SMEP Microfinance Bank Public Limited Company into compliance with such policy limits.

The Committee held 4 meetings during the year under review.

10 Statement as to disclosure to the company auditor

Each of the persons, who was a director at the time the report was approved confirms that:

(a) There is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware;

(b) The person has taken all the steps that the person ought to have taken as a director to be aware of any relevant audit information to establish that the company's auditor is aware of that information.

11 Directors' benefits

The company started its operations as a Microfinance Bank in 2011. During the year under review, the directors were only paid sitting allowance. The Bancassurance started operations in 2022 and no directors has been paid or entitled to any benefits or allowances.

12 Auditor

The group auditor Mazars LLP, Certified Public Accountants (K) has indicated willingness to continue in office in accordance with the section 719 of The Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

By order of the board

Board Chairman

16th February 2023

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

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

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

i) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements;

ii) Selecting and applying appropriate accounting policies; and

iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the group and company's financial statements give a true and fair view of the state of the financial affairs of the group as at 31 December 2022 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015.

Having assessed the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the group's ability to continue as a going concern. The directors are therefore of the view that the group will remain a going concern for at least the next twelve months from the date of this statement.

Approved by the Board of Directors on 16th February 2023 and signed on its behalf by:

Board Chairman **Director**

REPORT OF THE INDEPENDENT AUDITOR

Opinion

We have audited the accompanying consolidated and separate financial statements of SMEP Microfinance Bank Public Limited Company (the group and company/bank), set out on pages 19 to 68, which comprise the statement of financial position as at 31 December 2022, the statements of comprehensive income, changes in equity and cash flows for the year that ended, and notes, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements give a true and fair view of the financial position of the group and company as at 31 December 2022 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our 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 opinion.

Our audit approach

Overview

Key audit matters in the audit process and professional judgement was excised in determining the materiality, audit scope and sampling. These areas are summarised as below:

Materiality	In determining our materiality, the total assets were considered as the suitable benchmark, as the microfinance bank business line is on issue of Loans and has been in a loss-making position.
Scope	We audited the financial statements of the Bank for the year under review.
Area of Focus	The key areas the audit excise focused on were: • Compliance with IFRS 9 model • IT systems and controls • Know Your Customer (KYC) procedures on loan issuance

Key audit matters

1 Impairment of loans to customers.

See Accounting policy Note 1 on Financial Instruments.

The Bank applies IFRS 9 (Financial Instruments), which requires an impairment charge to be recognised when losses are expected rather than when they are incurred. Impairment of loans and advances to customers is considered a key audit matter because the directors make complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment

The information regarding the effect of this standard are disclosed in accounting notes.

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the implementation of IFRS 9 are:

i) Significant Increase in Credit Risk ('SICR') - The criteria selected to identify a significant increase in credit risk is a key area of judgement within the banks's ECL calculation as these criteria determine whether a 12-month or lifetime expected credit loss is assessed.

ii) Classification and measurement of financial instruments as well as Expected Credit Loss (ECL) modelling - Judgmental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default('EAD') and ultimately the Expected Credit Loss (ECL). The PD models used in the different loan portfolios are the key drivers of the banks's ECL results and are therefore most significant judgmental aspect of the Group's ECL modelling approach.

iii) Relevance and reliability of data used for ECL measurement - Judgement was applied in assessing the persuasiveness and reliability of the data in contributing assurance over the accuracy and completeness of the loans.

How the matter was addressed

Reviewing management's judgment around the classification and measurement of financial assets and significant increase in credit risk.

Reviewing the ECL model for compliance with the principles of IFRS 9 as well as ensuring consistency with the prior year application.

Evaluating key data inputs and assumptions impacting ECL calculations to assess the reasonableness of and PD assumptions applied.

Selecting a sample of facilities from the banks's loan book and performing tests to establish whether significant facilities are correctly staged/classified.

Assessing whether the disclosures appropriately disclose the key judgements and assumptions used in determining the expected credit losses.

Reviewing the data and assumptions made by management in arriving at the provisions and recomputing the loan provision based on the accounting policy

IT systems and environment

We identified the IT system and controls over financial reporting as an area of focus in the microfinance's financial accounting. We focused on this area basically because the Bank's financial accounting and reporting systems are heavily dependent on complex systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.

How our audit addressed the area of focus and what we found

We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting. We examined the framework of governance over the Company's IT organisation and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. Where necessary we also carried out direct tests of certain aspects of the security of the Company's IT systems including access management and segregation of duties.

The combination of the tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the continued and proper operation of the Company's IT systems for the purposes of our audit.

Know Your Customer (KYC) procedures on loan issuance

We focused on this area because KYC policy is an indispensable part of banking operation, whether it's about account opening or advancement of loans because of the inherent risk to the financial institutions, all the banks are required by the regulator to obtain information about their customers' identity and address, which are heavily dependent on the KYC policies and procedures operating effectively.

Our response

We assessed and tested the design and operating effectiveness of the KYC and in our exercise we considered the following aspects;

i) **Customer acceptance policy** - This was to ensure that documented guidelines are in place for acceptance of customers.

ii) **Customer identification procedures** - To identify the customer and verify his/her identity by using reliable, independent source documents, data or information.

iii) **Regular monitoring of transactions** - We held discussions with management to understand as well as observe the normal and reasonable activity of the customer in order to identify transactions that fall outside any regular pattern of activity.

The Board ensures that management obtains and maintains proper identification of customers wishing to open accounts or make transactions or enter into an engagement with the institution whether directly or indirectly through proxy; and maintains adequate and accurate records regarding its customers, sources of funds and transactions, as required by the Microfinance Act 2006.

Other information

The directors are responsible for other information. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's 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.

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, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company 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 are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 company'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 the auditor's report. However, future events or conditions may cause the company 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.

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

Report on other legal requirements

In our opinion the information given in the report of the directors on page 19 - 23 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA Evanson Ngang'a, P/No. 2146.

CPA EVANSON NG'ANG'A
Certified Public Accountant
M/No. 9991
P/No. 2146
P.O. Box 61120 - 00200, NAIROBI

MAZARS LLP
Certified Public Accountants
Nairobi

29 MARCH 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2022	2021
		Kshs '000'	Kshs '000'
Interest income	5	519,512	531,575
Interest expense	6	(147,169)	(182,512)
Net interest income		**372,343**	**349,063**
Fees earned	7	58,620	58,524
Other operating income	8	103,905	67,207
Foreign exchange gains - net		2,159	255
Operating income		**537,027**	**475,049**
Expenses			
Administration and operating expenses	9	472,480	445,766
Impairment losses on financial assets at amortized costs	15	42,399	74,811
Finance cost	20	11,285	12,968
		526,164	**533,545**
Net profit/ (loss) before tax		10,863	(58,496)
Taxation	11	(3,335)	12,120
Profit/ (loss) after tax		**7,528**	**(46,376)**
Other comprehensive income			
Gain on revaluation of property		-	-
Deferred tax attributable to gain revalution of property		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive profit/ (loss) for the year		**7,528**	**(46,376)**

STATEMENT OF COMPREHENSIVE INCOME

	Note	2022 Kshs '000'	2021 Kshs '000'
Interest income	5	519,512	531,575
Interest expense	6	(147,169)	(182,512)
Net interest income		**372,343**	**349,063**
Fees earned	7	58,620	58,524
Other operating income	8	93,545	67,207
Foreign exchange gains - net		2,159	255
Operating income		**526,667**	**475,049**
Expenses			
Administration and operating expenses	9	469,489	445,766
Impairment losses on financial assets at amortized costs	15	42,399	74,811
Finance cost	20	11,285	12,968
		523,173	**533,545**
Net profit/ (loss) before tax		3,494	(58,496)
Taxation	11	(974)	12,120
Profit/ (loss) after tax		**2,520**	**(46,376)**
Other comprehensive income			
Gain on revaluation of property		-	-
Deferred tax attributable to gain revalution of property		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive profit/ (loss) for the year		**2,520**	**(46,376)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	2022 Kshs '000'	2021 Kshs '000'
Cash and bank balances	12	367,556	343,607
Deposits with banks	13	339,252	425,171
Loans to customers	14	1,411,556	1,500,307
Cash balances with Central Bank of Kenya	16	109,436	119,436
Tax recoverable	11	30,335	28,866
Other assets	17	381,417	335,097
Intangible assets	18	10,124	18,837
Property and equipment	19	409,086	424,278
Right of use asset	20	80,320	96,707
Deferred taxation	21	88,765	89,739
TOTAL ASSETS		**3,227,847**	**3,382,045**
LIABILITIES			
Customer deposits	22	2,240,189	2,365,891
Borrowings	23	460,994	423,207
Lease liability	20	100,404	117,326
Other liabilities	24	30,890	88,176
		2,832,477	**2,994,600**
EQUITY			
Share capital	26	558,256	544,543
Share premium	26	14,607	2,354
Accumulated losses	28	(331,743)	(339,271)
Revaluation surplus		154,250	154,250
Shareholders equity		**395,370**	**361,876**
Funds awaiting allotment	27	-	**25,569**
		395,370	**387,445**
TOTAL RESERVES AND LIABILITIES		**3,227,847**	**3,382,045**

The financial statements on pages 29 to 68 were approved for issue by the Board of Directors on 16th February 2023 and were signed on its behalf by

Board Chairman

Director

Chief Executive Officer

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	2022 Kshs '000'	2021 Kshs '000'
Cash and bank balances	12	342,930	343,607
Deposits with banks	13	339,252	425,171
Loans to customers	14	1,411,556	1,500,307
Cash balances with Central Bank of Kenya	16	109,436	119,436
Tax recoverable	11	31,754	28,866
Other assets	17	377,773	335,097
Intangible assets	18	9,874	18,837
Property and equipment	19	409,086	424,278
Right of use asset	20	80,320	96,707
Deferred taxation	21	88,765	89,739
Investment in Subsidiary		15,000	-
TOTAL ASSETS		**3,215,746**	**3,382,045**
LIABILITIES			
Customer deposits	22	2,240,189	2,365,891
Borrowings	23	460,994	423,207
Lease liability	20	100,404	117,326
Other liabilities	24	23,797	88,176
		2,825,384	**2,994,600**
EQUITY			
Share capital	26	558,256	544,543
Share premium	26	14,607	2,354
Accumulated losses	28	(336,751)	(339,271)
Revaluation surplus		154,250	154,250
Statutory reserve		-	-
Shareholders equity		390,362	361,876
Funds awaiting allotment	27	-	25,569
		390,362	**387,445**
TOTAL RESERVES AND LIABILITIES		**3,215,746**	**3,382,045**

The financial statements on pages 29 to 68 were approved for issue by the Board of Directors on

16th February 2023 and were signed on its behalf by

Board Chairman

Director

Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share Premium	Funds awaiting allotment	Revenue Reserves	Revaluation Surplus	Statutory loan loss reserves	Total
	ksh '000'	ksh '000'	ksh '000'	ksh '000'	ksh '000'	ksh '000'	ksh '000'
Year ended 31 December 2022							
As at 1 January 2022	544,543	2,354	25,569	(339,271)	154,250	-	387,445
Issued shares	13,713	12,253	(25,569)	-	-	-	397
Profit for the year	-	-	-	7,528	-	-	7,528
Transfer to statutory reserve	-	-	-	-	-	-	-
At 31 December 2022	**558,256**	**14,607**	-	**(331,743)**	**154,250**	-	**395,370**
Year ended 31 December 2021							
As at 1 January 2021	544,543	2,354	25,569	(292,895)	154,250	-	433,821
Loss for the year	-	-	-	(46,376)	-	-	(46,376)
Transfer to statutory reserve	-	-	-	-	-	-	-
At 31 December 2021	**544,543**	**2,354**	**25,569**	**(339,271)**	**154,250**	-	**387,445**

The statutory reserve related to the excess provisions for impairment of loans and advances as computed per the Kenyan Microfinance Act, 2006 over the loans and advances impairment provisions as computed in accordance with IFRS 9 on financial instruments (Note 29). The statutory reserve is not distributable.

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share Premium	Funds awaiting allotment	Revenue Reserves	Revaluation Surplus	Statutory loan loss reserves	Total
	ksh '000'	ksh '000'	ksh '000'	ksh '000'	ksh '000'	ksh '000'	ksh '000'
Year ended 31 December 2022							
As at 1 January 2022	544,543	2,354	25,569	(339,271)	154,250	-	387,445
Issued shares	13,713	12,253	(25,569)	-	-	-	397
Profit for the year	-	-	-	2,520	-	-	2,520
Transfer to statutory reserve	-	-	-	-	-	-	-
At 31 December 2022	**558,256**	**14,607**	-	**(336,751)**	**154,250**	-	**390,362**
Year ended 31 December 2021							
As at 1 January 2021	544,543	2,354	25,569	(292,895)	154,250	-	433,821
Issued shares	-	-	-	-	-	-	-
Share capital refund	-	-	-	-	-	-	-
Loss for the year	-	-	-	(46,376)	-	-	(46,376)
Transfer to statutory reserve	-	-	-	-	-	-	-
At 31 December 2021	**544,543**	**2,354**	**25,569**	**(339,271)**	**154,250**	-	**387,445**

The statutory reserve related to the excess provisions for impairment of loans and advances as computed per the Kenyan Microfinance Act, 2006 over the loans and advances impairment provisions as computed in accordance with IFRS 9 on financial instruments (Note 29). The statutory reserve is not distributable.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2022 Kshs '000'	2021 Kshs '000'
Net profit/ (loss) before tax		10,863	(58,496)
Adjustment for:			
Depreciation - Property and equipment		33,772	40,230
Depreciation - ROU		40,617	40,455
Amortisation of computer software		9,468	12,332
Interest expense on lease liability		11,285	12,968
Impairment losses on financial assets at amortized costs		-	(3,266)
Working capital changes:			
Increase in loans to customers		88,751	260,920
Increase in other assets		(46,323)	(39,030)
Increase in customer deposits		(125,702)	(31,914)
Increase in other liabilities		(57,286)	(10,251)
Increase in cash reserve ratio – CBK		**10,000**	-
Cash (used in)/generated from operations		(24,555)	223,948
Tax paid		(3,830)	-
Net cash (used in)/ generated from operating activities		**(28,385)**	**223,948**
Cash flows from investing activities			
Payments for right-of-use assets		(52,433)	(50,713)
Purchase of intangible assets		(755)	(2,223)
Purchase of property and equipment		(18,580)	(28,373)
Net cash used in investing activities		**(71,768)**	**(81,309)**
Cash flows from financing activities			
Loans received/ (repaid)		104,867	(58,858)
Allotment of shares		25,966	-
Funds awaiting allotment		(25,569)	-
Net cash generated from/ (used in) financing activities		**105,264**	**(58,858)**
Increase in cash and cash equivalents		5,111	83,781
At start of year		646,187	562,406
At end of year		**651,297**	**646,187**

STATEMENT OF CASH FLOWS

	Note	Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
Net profit/ (loss) before tax		3,494	(58,496)
Adjustment for:			
Depreciation - Property and equipment		33,772	40,252
Depreciation - ROU		40,617	40,455
Amortisation of computer software		9,468	12,310
Interest expense on lease liability		11,285	12,968
Impairment losses on financial assets at amortized costs		-	(3,266)
Working capital changes:			
Increase in loans to customers		88,751	260,920
Increase in other assets		(42,679)	(39,030)
Increase in customer deposits		(125,702)	(31,914)
Increase in other liabilities		(64,379)	(10,251)
Increase in cash reserve ratio – CBK		**10,000**	**-**
Cash (used in)/generated from operations		(35,373)	223,948
Tax paid		(2,888)	-
Net cash (used in)/ generated from operating activities		**(38,261)**	**223,948**
Cash flows from investing activities			
Investment in subsidiary		(15,000)	
Payments for right-of-use assets		(52,433)	(50,713)
Purchase of intangible assets		(505)	(2,223)
Purchase of property and equipment		(18,580)	(28,373)
Net cash used in investing activities		**(86,518)**	**(81,309)**
Cash flows from financing activities			
Loans received/ (repaid)		104,867	(58,858)
Allotment of shares		25,966	-
Funds awaiting allotment		(25,569)	-
Net cash generated from/ (used in) financing activities		**105,264**	**(58,858)**
Increase/ (decrease) in cash and cash equivalents		(19,516)	83,781
At start of year		646,187	562,406
At end of year		**626,671**	**646,187**

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below.

a) Basis of preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings (Kshs), which is also the functional currency, rounded to the nearest thousand (Kshs'000).

The financial statements comprise a profit and loss account (income statement), statement of comprehensive income, balance sheet (statement of financial position), statement of changes in equity, statement of cash flows, and notes to the financial statements. Income and expenses, excluding the components of other comprehensive income, are recognized in the profit and loss account. Other comprehensive income is recognized in the statement of comprehensive income and comprises items of income and expense (including reclassification adjustments) that are not recognized in the profit and loss account as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to the profit and loss account in the current period that were recognized in other comprehensive income in the current or previous periods. Transactions with the owners of the company in their capacity as owners are recognized in the statement of changes in equity.

Measurement basis

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below;

Under the historical cost basis, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation or, in some cases, at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

For those assets and liabilities measured at fair value, 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. When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Company using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset/liability that market participants would take into account.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fairvalue measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

  Transfers between levels of the fair value hierarchy are recognised by the Company at the end of the reporting period during which the change occurred.

b) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3

Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is re-measured at fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform to the group's accounting policies.

(b) Changes in ownership interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

c) New and revised standards

i) Adoption of new and revised standards

Various standards became effective for the first time in the financial year beginning 1st January 2022 and have been adopted by the group. Neither of the Amendments has had an effect on the group's financial statements.

Amendments to IAS 37 titled Onerous Contracts - Cost of Fulfilling a Contract (issued in May 2020)

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022.

Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use (issued in May 2020)

The amendments, applicable to annual periods beginning on or after 1 January 2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Amendment to IFRS 1 titled Subsidiary as a First-time Adopter (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)

The amendment, applicable to annual periods beginning on or after 1 January 2022, provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.

Amendment to IFRS 9 titled Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)

The amendment, applicable to annual periods beginning on or after 1 January 2022, to IFRS 9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)

The amendment, applicable to annual periods beginning on or after 1 January 2022, to IAS 41 removed the requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS Standards.

ii) New and revised standards that have been issued but are not yet effective

The Company has not applied the following new and revised standards and interpretations that have been published but are not yet effective for the year beginning 1st January 2022.

Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)

The amendments, applicable to annual periods beginning on or after 1 January 2023, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

Amendments to IAS 8 titled Definition of Accounting Estimates (issued in February 2021)

The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.

Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)

The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies.

Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)

The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)

The amendments, applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

d) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed, and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Impact of initial application of IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the company has elected to continue to apply the hedge accounting requirements of IAS 39.

As a result of the adoption of IFRS 9, the company has adopted consequential amendments to IAS 1

Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method. Previously, the Company disclosed this amount in the notes to the financial statements.

The key changes to the company's accounting policies resulting from its adoption of IFRS 9 are summarized below.

The full impact of adopting the standard is set out in Note 2.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed, and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

a) Recognition and Initial Measurement

The company initially recognizes loans and advances, deposits and subordinated liabilities on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue

b) Classification

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI).

In addition, on initial recognition, the company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of

the assets managed or the contractual cash flows collected); and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed, and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

Assessment of whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans);
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgment:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Contractually linked instruments

The Bank has some investments in securitizations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and
- the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

e) Interest income and expense

Interest income and interest expense for all interest bearing financial instruments are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income. Fair value changes on other financial assets and liabilities carried at fair value through profit or loss, are also presented in net trading income included in the profit or loss.

Once a financial asset or a company of financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest that was used to discount the future cash flows for purposes of measuring the allowance for impairment.

Interest income includes interest on loans and receivables, placements with other banks and investments in government securities, and is recognized in the year in which it is earned.

f) Fees and commission income

In the normal course of business, the bank earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period. Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

g) Net trading income

Net trading income arises from the margins which are achieved through market marking and customer business and from changes in market caused by movements in interest and exchange rates, prices and other market variables. It comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes.

h) Equipment

Equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis at annual rates estimated to write off the cost of equipment over their expected useful lives using the following rates

Computers and office equipment	20.0%
Motor vehicles	25.0%
Furniture, fittings and office renovations	12.5%

i) Intangible assets-computer software costs

Generally, costs associated with developing computer software programmes are recognized as an expense incurred. However, a cost that is clearly associated with an identifiable and unique product which will be controlled by the bank and has a probable benefit exceeding the cost beyond one year, are recognized as an intangible asset.

Expenditure which enhances and extends computer software programmes beyond their original specifications and lives is recognized as a capital improvement and added to the original costs of the software. Computer software development costs recognized as assets are stated at cost less amortization. Amortization is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years.

j) Impairment of non-financial assets

At the end of each reporting period, the bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current taxation

The corporate tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates, except where the bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(iii) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in the equity respectively.

l) Foreign currencies

Transactions in foreign currencies during the year are translated at the rates ruling at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the end of each reporting date. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated. Gains and losses on exchange of monetary items are dealt with in the profit or loss in the period in which it arises.

m) Provisions

Provisions are recognized when the bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate of the amount of the obligation can be made.

n) Statutory reserve

IFRS 9 requires the bank to recognize an impairment loss when there is objective evidence that loans and receivables are impaired. However, Central Bank of Kenya prudential guidelines require the bank to set aside amounts for impairment losses on loans and advances in addition to those losses that have been recognized under IFRS 9. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining profit or loss. These amounts are dealt with in the statutory reserve.

o) Offsetting financial instruments

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

p) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank of Kenya (CBK), items in the course of collection from other banks, deposits held at call with banks and treasury bills with original maturities of less than three months. Such assets are generally subject to insignificant risk of changes in their fair value, and are used by the bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

q) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to profit or loss for the year on a straight-line basis over the term of the relevant lease.

r) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the 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. These obligations are accounted for as off financial position transactions and disclosed as contingent liabilities.

s) Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the bank acts in a fiduciary capacity such as nominee, trustee or agent.

t) Employee benefit costs

i) Bank's defined contribution retirement benefit scheme

The bank operates a defined contribution retirement benefit scheme for its permanent employees. The assets of the scheme are held and administered independently of the bank's assets by an insurance company. The scheme is funded by contributions from both the bank and employees.

ii) Statutory defined benefit obligation pension scheme

The bank contributes to the National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. Contributions are determined by local statute. The bank's contributions to the statutory retirement benefit scheme are charged to the profit or loss for the year to which they relate.

iii) Other employee entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made f or the liability for annual leave outstanding at the financial position date.

u) Comparatives

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

2 Critical accounting estimates and judgments in applying the entity's accounting policies

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

Critical accounting judgments in applying the company's policies

Impairment losses on loans and receivables

The entity reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit or loss, the company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a company, or national or local economic conditions that correlate with defaults on assets in the entity. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Key sources of estimation uncertainty

Property and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment.

3 Going concern

The group reported a net profit before tax of Ksh.10.9 million compared with net loss of Ksh. 58.5 million (2021) during the year and had borrowings of Ksh.461 million and Ksh.423 million as at 31 December 2021. The directors are of the opinion that with ongoing onboarding of a strategic partner, implementation of the new 2021 – 2023 strategic plan and seeking for additional funding for business growth, the company will continue to operate profitably and be in a position to fund operating expenses and capital expenditure requirements over the coming years, as well as to meet payment obligations. The directors are confident of the success of these measures and have therefore deemed it appropriate to prepare the financial statements on a going concern basis.

4 Financial risk review

This note presents information about the company's exposure to financial risks and the company's management of capital.

The company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks

a) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the company considers and consolidates all elements of credit risk exposure.

The following aspects of credit risks have been considered:

- Credit quality analysis
- Collateral held and other credit enhancements
- Amounts arising from ECL
- Impaired financial assets
- Concentrations of credit risk
- Offsetting financial assets and financial liabilities

(i) Credit quality analysis

An analysis of the company's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3'

Type of credit exposure

Loans and advances to customers at amortised Cost: ksh '000'

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Year ended 2022 Total	Year ended 2021 Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Grade 1: Normal	1,100,337	-	-	1,100,337	1,210,849
Grade 2: Watch	141,114	-	-	141,114	132,379
Grade 3: Substandard	-	22,841	-	22,841	39,258
Grade 4: Doubtful	-	15,782	-	15,782	9,095
Grade 5: Loss	-	-	552,874	552,874	487,718
Gross carrying amount	1,241,451	38,623	552,874	1,832,948	1,879,299
Loss allowance	102,986	4,581	313,825	421,392	379,152
Carrying amount	1,138,465	34,042	239,049	1,411,556	1,500,147

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

Loans and advances to customers at amortised Cost : ksh '000'

In thousands 'Kenya shilling'	2022 Stage 1		Stage 2		Stage 3		2022 Total ksh	2021 Total ksh
Current	1,100,337	-	-		-		**1,100,337**	**1,210,849**
Overdue < 30 days	131,889	-	-		2,234		**134,123**	**132,379**
Overdue > 30 days	9,225	-	38,623		550,640		**598,488**	**536,071**
Total	1,241,451	-	38,623	-	552,874	-	**1,832,948**	**1,879,299**

Cash and cash equivalents

The company held cash and cash equivalents of Shs.375.8 million at 31 December 2022 (2021: Shs. 437 Million). The cash and cash equivalents are held with financial institution counterparties that are rated at least B, based on Global Corporate Default Study ratings.

(ii) Collateral held and other credit enhancements

The company holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure

Percentage of exposure that is subject to collateral requirements

In thousands Kenya shillings	Note	31-Dec 2022	31-Dec 2021	Principal type of collateral held
Loans to customers	14	1,832,948	1,879,300	property & equipment & cash

The following tables stratify credit exposures from customer loans and advances by ranges of loan-to- value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. For credit-impaired loans the value of collateral is based on the most recent appraisals.

In thousands Kenya Shillings	Note	2022	31-Dec 2021
LTV ratio			
Less than 50%		888,800	982,288
51-70%		49,758	59,262
71-90%		67,740	42,587
91-100%		32,069	41,654
More than 100%		794,581	750,182
Total		**1,832,948**	**1,875,973**

Loans and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it (see Note 3(B)). However, collateral provides additional security and the company generally requests that corporate borrowers provide it. The company may take collateral in the form of a first charge over real estate, floating charges over assets and other liens and guarantees.

Because of the Company's focus on customers' creditworthiness, the company does not routinely update the valuation of collateral held against all loans to customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the company obtains appraisals of collateral because it provides input into determining the management credit risk actions.

Loans and advances to customers designated as at FVTPL

At 31 December 2022, the maximum exposure to credit risk of loans and advances to customers designated as at FVTPL was their carrying amount of 421 million (2021: Ksh.378 million). The company has mitigated the credit risk exposure of some but not all of these loans and advances by developing an effective system of internal control, to consistently determine adequate allowances in accordance with the company's stated policies and procedures, IFRSs and relevant supervisory guidance. Focus is also in developing and maintaining the company's risk processes for measuring Expected Credit Loss including monitoring of credit risk, incorporating forward looking information and the method used to measure ECL.

(iii) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and expert credit assessment and including forward- looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses

Stage 3 - When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Credit risk grades

The company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The credit risk grades within company are based on a probability of default. The company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to the nature and type of loans.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

The company grades its loans into five categories on the basis of the following criteria:

Performing loans, being loans which are well documented and performing according to contractual terms. Such loans are considered under stage 1 - no significant increase in credit risk for purposes of the ECL calculation;

Watch loans, being loans whose principal or interest have remained un-paid for one day to thirty days or where one instalment is outstanding for less than 30 days. Such loans are also classified as stage 1 for purposes of the ECL calculation;

Substandard loan, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between thirty-one to one eighty days or where two to six instalments have remained outstanding. Under this category, loans past due between 31 - 90 days (or 2-3 pending instalments) are classified within in stage 2 – significant increase in credit risk for purposes of the ECL calculation. Loans aged beyond 90 days are classified as stage 3 - credit impaired;

Doubtful loans, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between one hundred and eighty-one to three hundred and sixty days or where seven to twelve instalments have remained outstanding. Such loans are classified as stage 3 for purposes of the ECL calculation; and

Loss loans, being loans which are considered uncollectible or of such little value that their continued recognition as receivable assets is not warranted, not adequately protected and have remained un-paid for more than three hundred and sixty days or where more than twelve instalments have remained outstanding. Such loans are also classified as stage 3 for purposes if the ECL calculation.

The table below provides an indicative mapping of how the company's internal credit risk grades relate to PD.

Grading	12-month weighted-average PD	
	2022	2021
Grades 1: Low-fair risk	20.0%	24.9%
Grades 2: Higher risk	90.0%	90.2%
Grades 3-5: Substandard, doubtful, loss	100.0%	100.0%

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by historical product and borrower performance as well as by credit risk grading.

The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between wholesale and retail.

Accounts which are more than 30 days overdue have been determined as having a SICR. For accounts with a SICR PD and LGD has been assessed under the life time credit losses basis.

Discounting used in the ECL calculation

The average contractual interest rates for each credit risk category was taken as the discounting rate for the respective category.

Collateral information

Collateral available for the various buckets determined for IFRS 9 modelling has been considered at the Loss Give Default formulation.

Collateral amounts considered for modelling purposes has been based on the forced sale values, this information was extracted from the bank's core banking system. These values were discounted by one year with the average interest rates per bucket used as the discount rate.

Discounting was done for one year since information available on collateral realization shows that the bank is able to dispose collateral with 12 months from date of seizure and the amounts realized based on historical data provided. Proceeds on sale of collateral based on historical data have always exceeded the forced sale values hence no further haircuts have been considered.

For the groups bucket only group savings have been applied as collateral for modelling purposes, these have been proportionately apportioned to members with outstanding loan balances per bucket based on the total group outstanding loan balance. No discounting has been done on the group savings.

Cash recoveries

Subsequent cash recovery factor has been incorporated under the Loss Given Default formulation. These are recoveries received after an account has dropped to the non-performing classes. These amounts have been discounted based on the year the cash was received to present value.

Stage 3 Expected Credit Losses (ECL)

Stage 3 ECL applies to accounts which are credit impaired i.e. over 90 days overdue. For stage 3 ECL is/ has been computed after considering the present value for security and the recoveries history.

Deposits and bank balances Expected Credit Losses

An expected credit loss model for deposits and call balances placed with banks will be based on the default rate assigned by global credit rating bodies S&P and GCR.

The S&P ranking has assigned a risk/default rate of 0.00% for financial institutions rated AAA, 0.02% for AA rated, 0.07% A rated, 0.29% for BBB rated, 0.76% for BB rated, 2.93% for B rated and 15.79% for CCC/C rated financial institutions (Source 2017 Annual Global Corporate Default Study, Standard & Poor). GCR has carried out a credit rating of Kenyan banks but has not assigned risk/default rates for the various ratings given. On the other hand, S&P has not done a rating specific to Kenyan financial institutions but has risk rates assigned to various ratings as documented above whose description we have reviewed and came up with the risk rates applicable to Kenyan banks.

In the GCR rating of Kenyan financial institutions such as KCB Bank, Equity Bank and Commercial Bank of Africa are described as consistently having a stable outlook which is what is similar to the S&P description of financial institutions rated BB. Hence a default rate of 0.76% has been considered for deposits held with Tier one banks. Tier two banks such as Diamond Trust Bank are described as having a stable or positive outlook in the GCR rating which can be equated to the S&P rating of B with a default rate of 2.93%. Whilst Tier three banks such as stable or positive or watch outlook by GCR which bear similar descriptions as the CCC/C rating by S&P with a risk/default rate of 15.79%.

Definition of default

The Company considers loans that have been outstanding for more than 30 days as defaulted loans. Loans that are more than 90 days past due are considered to be credit impaired. The Company considers a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due. The company's write-off policy under IAS 39 is not expected to be materially different under IFRS 9.

For the purposes of IFRS 9 and based on the company's loan book and risk profile, the bank has considered product type as most appropriate for aggregating its loan book. The following product buckets have been determined:

Asset Finance – this category comprises of loan products issued by the bank secured by motor vehicles and by a charge on title deeds.

Groups – category includes loan products issued to organised groups and members of organised groups. Loans in this category are secured by the log books, a charge on title deeds and group savings held by the bank.

Church – category comprises of loan products issued to churches and affiliates for development purposes and secured by a charge on title deeds.

Agriculture – comprises loan products to customers engaged in the Agri business.

Consumer and Household – this category comprises loan products issued to individuals, staff and other salary based products. The loans are secured by log books and by a charge on title deeds.

SME – this category comprises loan products to SME sector and Staff Development loans. Loans are secured by vehicle log books and by a charge on title deeds.

Insurance – comprises of IPF loan products.

Incorporation of forward-looking information

IFRS 9 requires the ECL models to consider forward looking information and not simply relying on past experience.

The relevant forward looking information will impact PD in terms of the changes to the likelihood of a loss event occurring compared to history and LGD in terms of impact on actual loss were a default event to take place.

The relevant forward looking information will impact PD in terms of the changes to the likelihood of a loss event occurring compared to history and LGD in terms of impact on actual loss were a default event to take place.

The company considers the following forward looking factors to be relevant to the business:

- Inflation
- Interest rates
- GDP growth
- Employment levels

However the Company did not apply macro-economic adjustments to the PD because the Company is focused on short term lending.

As an equal probability would be assigned to each of these outcomes, the forward looking factors are not expected to have a material impact on the ECL.

The company also considers interest rates, inflation and employment to be the relevant factors influencing PD. It has been noted that economic factors do not have any significant impact on PD, all the economic factors having a correlation of less than one.

Modified financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The company renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The company has an established forbearance policy which applies for corporate and retail lending.

When a financial asset is modified, the company assesses whether this modification results in derecognition. In accordance with the company's policy a modification results in derecognition when it gives rise to substantially different terms.

To determine if the modified terms are substantially different from the original contractual terms the company considers the following;

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

Measurement of ECL

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

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- type;
- LTV ratio;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the company has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

Loans and advances to customers at: ksh '000'

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Year ended 2021 Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Loss as at 01 January	1,820	2,192	374,982	378,993	**307,447**
Change in loss allowance				-	-
- Transfer to stage 1	15,951	-	(15,951)	-	-
- Transfer to stage 2	(998)	31	967	-	-
- Transfer to stage 3	(24,239)	(4,465)	28,704	-	-
New financial assets originated or purchased	1,305	1,456	73,679	**76,440**	**76,440**
Derecognized financial asset	(9,800)	(5,170)	(287,583)	**(302,553)**	**(302,553)**
Loss allowance as at 31 December 2022	**698**	**1,143**	**419,550**	**421,391**	**378,993**

Loans and advances to customers at: ksh '000'

		Allowance for ECL	ECL charge to profit and loss
Summary of financial instruments to which impairment requirements in IFRS 9 are applied	1,832,948	421,392	42,399

		Allowance for ECL	ECL charge to profit and loss
Summary of financial instruments to which impairment requirements in IFRS 9 are applied	1,879,300	378,993	71,545

More information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance, is provided at the table below:

		Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total Kshs
		Kshs	Kshs	Kshs	
Gross carrying amount as at 01.01.22		1,229,230	38,696	611,374	**1,879,299**
Change in loss allowance					-
-	Transfer to stage 1	1,244,936	(1,273)	(1,243,663)	-
-	Transfer to stage 2	(35,708)	313	35,395	-
-	Transfer to stage 3	(84,621)	(22,192)	106,813	-
New financial assets originated or purchased		616,077	12,455	260,529	**889,061**
Derecognized financial asset		(2,134,743)	329	1,199,000	**(935,414)**
Gross carrying amount as at 31.12.22		**835,171**	**28,328**	**969,448**	**1,832,946**

		Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total Kshs
		Ksh	Kshs	Kshs	
Gross carrying amount as at 01.01.21		1,611,301	24,631	432,744	**2,068,675**
Change in loss allowance					-
-	Transfer to stage 1	590,468	(254)	(590,214)	-
-	Transfer to stage 2	(15,733)	270	15,463	-
-	Transfer to stage 3	(78,724)	(12,827)	91,550	-
New financial assets originated or purchased		680,105	22,855	140,468	**843,429**
Derecognized financial asset		(1,558,188)	4,021	521,362	**(1,032,805)**
Gross carrying amount as at 31.12.21		**1,229,230**	**38,696**	**611,374**	**1,879,299**

1 **Loans with renegotiated terms**

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

Loans and investment debt securities that were past due but not impaired

Loans and investment debt securities that were 'past due but not impaired' are those for which contractual interest or principal payments were past due but the Bank believed that impairment was not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank. The amounts disclosed exclude assets measured at FVTPL.

(v) Concentration of credit risk

The company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, loan commitments, financial guarantees and investment securities is shown below.

Loans to customers - gross:

	2022 Shs '000	%	2021 Shs '000	%
Agriculture	66,016	4%	55,756	3%
Business services	316,119	17%	360,050	19%
Consumer	1,450,813	79%	1,436,484	78%
	1,832,948		**1,852,290**	

Concentration by location for loans and advances, loan commitments and financial guarantees is based on the customer's country of domicile. Concentration by location for investment securities is based on the country of domicile of the issuer of the security.

Offsetting financial assets and financial liabilities

There were no financial assets and financial liabilities that were offset in the Bank's statement of financial position and none are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments.

b) Liquidity risk

The company is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with customer requirements. Liquidity risk is addressed through the following measures:

(i) Management of liquidity risk

The company'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 company's reputation. The Audit and Risk Committee, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties meeting financial liabilities as they fall due is encountered.

A portfolio of short-term liquid assets largely made up of short-term liquid investment securities and bank facilities ensure that sufficient liquidity is maintained within the company as a whole.

(ii) Source of funding

The company has an aggressive strategy aimed at increasing the customer base and maintains a diversified and stable base of customers. The company also borrows from the banks for short term liquidity requirements.

(iii) Exposure to liquidity risk

The key measure used by the company for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment in securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. The company regulators require that the company maintains a liquidity ratio of 20%. The company complied with the liquidity requirements during the year. The average liquidity ratio for the year was 25% (2021 – 24%).

The table below represents the cash flows payable by the company under non- derivative financial liabilities by remaining contractual maturities at the end of the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. The company manages the inherent liquidity risk based on expected undiscounted cash inflows.

	As at 31 December 2022	Less than 1 month Kshs. '000'	Between 1-3 months Kshs. '000'	Between 4-12 months Kshs. '000'	1 year less than year 3 Kshs. '000'	Over 3 years Kshs. '000'	Total Kshs. '000'
b)	**Liquidity risk**						
	Financial Liabilities						
	Customer deposits	(1,358,127)	(164,226)	(630,169)	(87,583)	(84)	(2,240,189)
	Related party	1,199	-	-	-	-	1,199
	Borrowings	(60,870)	(15,668)	(40,253)	(344,203)	-	(460,994)
	Total liabilities Contractual (maturity dates)	**(1,417,798)**	**(179,894)**	**(670,422)**	**(431,786)**	**(84)**	**(2,699,984)**
	Financial Assets						
	Cash and bank balances	367,556	-	-	-	-	367,556
	Short term deposits with banks	339,252	-	-	-	-	339,252
	Cash reserve ratio - CBK	109,436	-	-	-	-	109,436
	Loan to customers (net)	436,807	50,114	297,041	493,686	133,908	1,411,556
	Total assets (expected maturity dates)	1,253,051	50,114	297,041	493,686	133,908	**2,227,800**
	NET LIQUIDITY GAP	**(164,747)**	**(129,780)**	**(373,381)**	**61,900**	**133,824**	**(472,184)**
	As at 31 December 2021						
	Total liabilities Contractual (maturity dates)	(1,248,999)	(262,283)	(895,755)	(383,003)	(257)	(2,790,297)
	Total assets (expected maturity dates)	975,224	47,026	343,689	714,997	307,585	2,388,520
	NET LIQUIDITY GAP	**(273,776)**	**(215,257)**	**(552,066)**	**331,994**	**307,328**	**(401,777)**

c) Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the company'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.

Management of market risks

Overall authority for market risk is vested in the Risk Committee which is responsible for the development of detailed risk management policies. The policies are subject to review and approval by the board.

Exposure to interest rate risk

The company is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on financial position and cash flows. The risk committee closely monitors the interest rates trends to minimize the potential adverse impact of interest rate changes. The table overleaf summarizes the exposure of interest rate risk at the reporting date. The company maintains an appropriate mix of fixed and floating rates deposit base. Interest rates on advances to customers and other risk assets are either pegged to the company's lending rate The Company's rates are adjusted from time to time to reflect the cost of deposits.

Interest rates on cash collateral held are determined by the company with the company retaining the discretion to adjust the rates in line with changes in market trends. The interest rates, therefore, may fluctuate depending on the movement in the market interest rates. The company also invests in fixed interest rate instruments issued by the Government of Kenya through the Central Bank of Kenya.

Included in the table overleaf are financial assets and liabilities at carrying amounts categorized by the earlier of contractual repricing or maturity dates.

		Less than 1 month Kshs. '000'	Between 1-3 months Kshs. '000'	Between 4-12 months Kshs. '000'	1 year less than year 3 Kshs. '000'	Over 3 years Kshs. '000'	Non-interest bearing Kshs. '000'	Total Kshs. '000'
	As at 31 December 2022							
b)	**Liquidity risk**							
	Financial Liabilities							
	Customer deposits	(15,043)	(164,226)	(630,169)	(87,583)	(84)	(1,343,084)	(2,240,189)
	Related party	-	-	-	-	-	1,199	1,199
	Borrowings	(60,870)	(15,668)	(40,253)	(344,203)	-	-	(460,994)
		(75,913)	**(179,894)**	**(670,422)**	**(431,786)**	**(84)**	**(1,341,885)**	**(2,699,984)**
							.	
	Financial Assets							
	Cash and bank balances	-	-	-	-	-	367,556	367,556
	Short term deposits with banks	339,252	-	-	-	-	-	339,252
	Cash reserve ratio - CBK	-	-	-	-	-	109,436	109,436
	Loan to customers (net)	436,807	50,114	297,041	493,686	133,908	-	1,411,556
		776,059	**50,114**	**297,041**	**493,686**	**133,908**	**476,992**	**2,227,800**
	On statement of financial position							
	Interest sensitivity gap	**700,146**	**(129,780)**	**(373,381)**	**61,900**	**133,824**	**(864,893)**	**(472,184)**
	As at 31 December 2021							
	Total liabilities Contractual (maturity dates)	(224,427)	(243,607)	(794,649)	(361,175)	(172)	(1,078,355)	(2,702,386)
	Total assets (expected maturity dates)	428,665	47,026	343,689	714,997	307,585	476,992	2,318,953
	On statement of financial position							
	Interest sensitivity gap	**204,238**	**(196,582)**	**(450,960)**	**353,822**	**307,413**	**(601,363)**	**(383,433)**

Interest rate risk stress test

The impact that an immediate hypothetical increase or decrease in interest rates of 10% applied at the beginning of the year would have on the profit for the year assuming a growing balance sheet and current interest rate risk profile would be as follows:

	2022 sh '000'		2021 sh '000'	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
10% increase in interest rates	**34,906**	**27,925**	**33,881**	**27,104**
10% decrease in interest rate	**(34,906)**	**(27,925)**	**(33,881)**	**(27,104)**

The model does not take into account any corrective action in response to interest rate movements, particularly in adverse situations.

Currency risk

The company operates wholly within Kenya and its assets and liabilities are reported in the local currency.

The company's currency position is as follows:-

Assets	KES Sh'000	USD Sh'000	Euro Sh'000	Total Sh'000
Cash and bank balances	367,556	-		367,556
Short term deposits with banks	326,502	6,150	6,600	339,252
Cash reserve ratio- CBK	109,436	-	-	109,436
Loans to customers (net)	1,411,556	-	-	1,411,556
Total financial assets	**2,215,050**	**6,150**	**6,600**	**2,227,800**
Liabilities				
Balances due to banking institutions	-	-	-	-
Customer deposits	2,240,189	-	-	2,240,189
Related party	1,199	-	-	1,199
Borrowings	(460,994)	-	-	(460,994)
Revolving fund	-	-	-	-
Total financial liabilities	**1,780,394**	**-**	**-**	**1,780,394**
Net balance sheet position	**434,656**	**6,150**	**6,600**	**447,406**

	KES Sh'000	USD Sh'000	Euro Sh'000	Total Sh'000
Total financial assets	2,215,050	6,150	6,600	2,227,800
Total financial liabilities	(1,780,394)	-	-	(1,780,394)
Net balance sheet position	**434,656**	**6,150**	**6,600**	**447,406**

The table below summarizes the estimated impact of a 10% appreciation/depreciation of the Kenya shilling against the two major currencies traded by the company i.e. the US Dollar and the Euro.

		2022 sh '000'		2021 sh '000'
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
+10% KES movement	2	1	28	20
-10% KES movement	**(2)**	**(1)**	**(28)**	**(20)**

The Central Bank of Kenya sets and monitors capital requirements for Microfinance Bank Institutions as a whole.

The Microfinance Bank regulatory capital is analysed into two tiers:

- Ti er 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances Tier2capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

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

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

The institution's aim is to build a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Microfinance Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In implementing current capital requirements, the Central Bank of Kenya requires each Microfinance Bank to maintain;

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

The Microfinance Bank externally imposed capital requirements are as computed below.

Tier 1 capital	Group 2022 Ksh '000'	Bank 2022 Ksh '000'	Bank 2021 Ksh '000'
Share capital	558,256	558,256	544,543
Share premium	14,607	14,607	2,354
Accumulated losses	(339,271)	(339,271)	(292,895)
Net after tax profit/(loss)	7,528	2,520	(46,376)
Intangible Assets	(119,100)	(120,519)	(118,605)
	122,020	**115,593**	**89,021**
Tier 2 capital			
Revaluation reserves (25%)	38,563	38,563	38,563
	38,563	**38,563**	**38,563**
Regulatory capital	160,583	156,675	127,584
Total risk-weighted assets	**2,264,573**	**2,272,172**	**2,271,590**
Capital ratios			
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum - 12%)	**7%**	**7%**	**6%**
Total tier 1 capital expressed as a percentage of total risk-weighted assets (CBK minimum - 8%)	**5%**	**5%**	**4%**

Capital allocation

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Risk and Compliance and Credit, and is subject to review by the Board Credit Committee or ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Microfinance Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Microfinance Bank's longer term strategic objectives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

		Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
5	**Interest income**		
	Loans to customers	476,677	493,626
	Deposits with banks	42,835	37,949
		519,512	**531,575**
6	**Interest expenses**		
	Borrowings	61,449	48,414
	Customer deposits	85,720	134,098
		147,169	**182,512**
7	**Fees income**		
	Loan disbursement	18,899	20,010
	Loan application	39,663	38,415
	Membership	32	58
	Training	26	41
		58,620	**58,524**

		Group 2022 Kshs '000'	Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
8	**Other operating income**			
	Front office income	9,080	9,080	9,993
	Guarantee commissions	33,338	33,338	6,361
	Insurance agency Income	10,736	376	-
	Other income and charges	50,751	50,751	50,853
		103,905	93,545	67,207
9	**Administration and operating expenses**			
	Staff costs (note 10)	208,881	207,625	199,770
	Office rent and service charge	62,934	61,468	63,363
	Computer expenses	22,066	22,066	16,699
	Depreciation (note 19)	33,772	33,772	40,196
	Communication	28,871	28,871	30,200
	Travel and transport	15,773	15,690	11,918
	Amortization of computer software (note 18)	9,468	9,418	12,332
	Legal expenses	9,914	9,838	8,815
	Programme expenses	9,329	9,329	5,605
	General Insurances	15,591	15,591	15,319
	Directors fee	6,959	6,959	6,926
	Advertising expenses	5,867	5,867	3,613
	Office expenses	11,026	12,410	7,693
	Bank charges	7,272	7,272	5,195
	Office equipment maintenance	11,379	11,379	8,800
	Printing and stationery	3,651	3,651	3,186
	AGM expenses	1,736	1,736	1,710
	Audit fees	1,827	1,827	1,827
	Taxation fees	783	783	968
	Subscriptions and donations	1,624	1,604	1,631
	Insurance agency expenditure	2,851	-	-
	Transaction advisory expenses	906	906	-
		472,480	**468,063**	**445,766**

		Group 2022 Kshs '000'	Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
10	**Personnel costs**			
	Salaries and wages	178,234	177,059	181,224
	Medical expenses	10,957	10,876	-
	Pension fund expenses	10,473	10,473	11,502
	Other payroll expenses	8,388	8,388	6,376
	Staff recruitment training and exposure costs	174	174	75
	Statutory pension contributions (NSSF)	655	655	593
		208,881	**207,625**	**199,770**

		Group 2022 Kshs '000'	Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
11	**Taxation**			
(a)	**Tax credit/(expense)**			
	Current tax at 30% (2021: 30%)	2,361	-	-
	Deferred tax (note 21)	974	974	(12,120)
		3,335	**974**	**(12,120)**
(b)	**Reconciliation of expected tax based on accounting loss to tax credit**			
	Accounting loss before tax	**10,863**	**3,494**	**(23,685)**
	Tax applicable rate of 30% (2021: 30%)	3,259	1,048	(7,106)
	Tax effect of:			
	Expense not deductible (note 21)	76	(74)	(5,015)
		3,335	**974**	**(12,120)**
(c)	**Tax recoverable**			
	At 1 January	28,866	28,866	29,108
	Tax charge for the year	(2,361)	-	(242)
	Withholding tax paid	3,830	2,888	-
	At 31 December	**30,335**	**31,754**	**28,866**
12	**Cash and bank balances**			
	Cash at bank	55,174	30,548	103,074
	Cash in hand	52	52	52
	Mpesa a/c	312,330	312,330	240,481
	Cash and bank balances	**367,556**	**342,930**	**343,607**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held with banks, net of bank overdrafts.

		Group 2022 Kshs '000'	Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
13	**Deposits with banks maturing within 1 year**			
	Co-operative Bank of Kenya Limited	10,736	10,736	9,422
	Kingdom Bank Limited	108,682	108,682	306,359
	UBA Bank Limited	-	-	4,884
	Middle East Bank Limited	231,744	231,744	116,416
	Smep Microfinance Bank Public Limited	-	24,626	-
		351,162	**375,788**	**437,081**
			-	
	Less impairment provision for low credit risk assets	(11,910)	(11,910)	(11,910)
		339,252	**363,878**	**425,171**

'The effective average interest rate on deposits with banks as at 31 December 2022 was 10% (31 December 2021: 12%).

		Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
14	**Loans to customers**		
	Loans to customers	1,805,751	1,852,290
	Loans to staff	27,197	27,010
	Accumulated impairment losses (note 15)	(421,392)	(378,993)
		1,411,556	**1,500,307**

The effective interest rate on loans to customers at 31 December 2022 was 27.1% (2021 - 27.1%)

			Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
15	**Changes in expected credit losses and other credit impairment charges**			
	a)	Impairment losses on loans and advances		
		At 1 January	378,993	307,448
		Impairment losses recognised on loans in the year	42,399	71,545
		At 31 December	**421,392**	**378,993**
	b)	Impairment losses on financial assets		
		At 1 January	11,910	8,644
		Impairment loss in the year	-	3,266
		At 31 December	11,910	11,910
		Impairment losses on loans and advances (Note 15(a))	42,399	71,545
		Impairment losses on financial assets at amortised costs	-	3,266
			42,399	**74,811**
16	**Cash balances with Central Bank of Kenya**			
	Cash ratio requirement		**109436**	**119436**

'The cash ratio requirement is maintained based on the customer deposits with the company as adjusted by the Central Bank of Kenya requirements. As as 31 December 2022, the cash reserve ratio requirement was 4.25% for all customer deposits (2021: 4.25%).

		Group 2022 Kshs '000'	Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
17	**Other assets**			
	Deposits and prepayments	22,283	18,639	19,961
	Interest receivable	299,498	299,498	274,007
	Sundry debtors	32,258	32,258	38,151
	Stationery inventory	1,567	1,567	2,978
	Treasury Bills	10,811	10,811	-
	Investment in subsidiary	15,000	15,000	-
		381,417	**377,773**	**335,097**
18	**Intangible assets**			
	Cost			
	As at 1 January	157,181	157,181	154,958
	Additions during the year	755	505	2,223
	As at 31 December	**157,936**	**157,686**	**157,181**
	Amortization			
	As at 1 January	138,344	138,344	126,012
	Amortization	9,468	9,468	12,332
	As at 31 December	**147,812**	**147,812**	**138,344**
	Net book value			
	As at 31 December	**10,124**	**9,874**	**18,837**

These are computer software used in company's operations and are measured at cost less accumulated amortization

		Freehold land and buildings Kshs '000'	Motor Vehicles Kshs '000'	Equipment Furniture and fittings Kshs '000'	Total Kshs '000'
19	**Property and equipment**				
	Cost				
	At 1 January 2022	330,477	18,441	368,674	717,592
	Additions	180	-	18,400	18,580
	Disposal	-	-	(3,306)	(3,306)
	At 31 December 2022	**330,657**	**18,441**	**383,768**	**732,866**
	At 1 January 2021	330458	18311	340,673	689,442
	Additions	19	130	28,224	28,373
	Disposal	-	-	(223)	(223)
	At 31 December 2021	**330,477**	**18,441**	**368,674**	**717,592**
	Depreciation				
	At 1 January 2022	977	18,318	274,019	293,314
	Charge for the year	331	33	33,409	33,773
	Disposal	-	-	(3,306)	(3,306)
	At 31 December 2022	**1,308**	**18,351**	**304,121**	**323,780**
	At 1 January 2021	651	18,286	234,394	253,331
	Charge for the year	326	32	39,837	40,195
	Disposal	-	-	(212)	(212)
	At 31 December 2021	**977**	**18,318**	**274,019**	**293,314**
	Net book value				
	At 31 December 2022	**329,349**	**90**	**79,647**	**409,086**
	At 31 December 2021	**329,500**	**123**	**94,655**	**424,278**

Net book value - Cost basis

Had the company's freehold land and buildings been measured on historical cost basis, the carrying amounts would have been as follows;

		Freehold land and buildings Kshs '000'	Motor Vehicles Kshs '000'	Equipment Furniture and fittings Kshs '000'	Total Kshs '000'
	Net book value - Cost basis				
	At 31 December 2022	**101,816**	**90**	**79,647**	**181,553**
	At 31 December 2021	**102,467**	**123**	**94,655**	**197,245**

Fair value measurements of the company's freehold land and buildings:

The table below shows an analysis of freehold land and buildings at fair value by level of the fair value hierarchy. Freehold land and buildings are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.

ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices); and

iii) Level 3 fair value measurements are those derived from valuation technical techniques that include inputs for the asset or liability that are not based on observable market dat (unobservable inputs)

		Level 1 Ksh '000'	Level 2 Ksh '000'		Level 3 Ksh '000'	Total Kshs '000'
	At 31 December 2022					
	Freehold land and buildings	-	**330,000**		-	**330,000**
	At 31 December 2021					
	Freehold land and buildings	-	**330,000**		-	**330,000**

The company's freehold land and buildings are stated at their revaluation amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the company's freehold land and buildings were performed as at 31 December 2018 by Tysons Limited, independent valuers.

The fair value of the freehold land and buildings was determined based on market comparable approach that reflects recent transactions prices for similar properties. The resultant surplus was credit to the revaluation reserves in the shareholders equity.

There were no transfers between level 1, 2 and 3 during the years ended 31 December 2022 and 31 December 2021.

		Group 2022 Kshs '000'	Bank 2021 Kshs '000'
20	**Right of use asset**		
	Balance as at 1 January	96,707	93,776
	Additions in the year	24,230	43,386
	Depreciation charge	(40,617)	(40,455)
	Balance as at 31 December	**80,320**	**96,707**
	Lease liabilities		
	Maturity analysis		
	Less than one year	50,604	50,604
	More than one year	49,800	66,722
	Total undiscounted lease liabilities as at 31 December	**100,404**	**117,326**
	Current	50,604	50,604
	Non-current	49,800	66,722
	Total	**100,404**	**117,326**
	Amount recognized in profit and loss		
	Interest on lease liabilities	11,285	12,968
	Depreciation charge	**40,617**	**40,455**
	Amount recognized in the statements of cash flows		
	Total cash outflow of the lease	**(52,433)**	**(50,713)**

		Group 2022 Kshs '000'	Bank 2021 Kshs '000'
21	**Deferred tax**		
	The net deferred tax asset is attributable to the following items:		
	Assets		
	Provision for leave pay	1,070	1,243
	Provision for bad debts	133,564	120,844
	Other provisions	(159)	813
	Tax losses carried forward	3,622	20,997
		138,097	**143,897**
	Liabilities		
	Unrealized exchange gain	(648)	(77)
	Excess depreciation over capital allowance	13,951	8,553
	Revaluation surplus	(62,634)	(62,634)
		(49,331)	**(54,158)**
	Net deferred tax	**88,766**	**89,739**
	The movement in the deferred tax account during the year were as follows:		
	At 1 January	89,739	77,619
	Deferred tax credit for the year (note 11(a))	(974)	12,120
	At 31 December	**88,765**	**89,739**

		Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
22	**Customer deposits**		
	Demand deposits	1,056,741	932,634
	Short term deposits	286,343	367,951
	Fixed deposits	897,105	1,065,306
		2,240,189	**2,365,891**

The effective interest rate on customer deposits as at 31 December 2022 was 10% (2021: 10%)

		Group 2022 Kshs '000'	Bank 2021 Kshs '000'
23	**Borrowings**		
	Loans - at amortized cost		
	Cooperative Bank Limited	273,425	256,756
	Middle East Bank	114,308	-
	Christian Aid	7,900	7,900
	Danish Church Aid	9,850	7,124
	Rabobank loan account	-	5,194
	BNP - Profit Programme	-	18,552
	Plan International	-	5,090
		405,483	**300,616**
	Bank overdraft		
	Bank overdrafts	**55,511**	**122,591**
		460,994	**423,207**

		Group 2022 Kshs '000'	Bank 2021 Kshs '000'
	Maturity of the borrowing		
	Due within one year	76,538	194,250
	Due after one year	328,945	106,366
		405,483	**300,616**
	Movement in loan balance		
	At 1 January	300,616	359,474
	Loans received	240,522	82,124
	Loans repaid	(135,655)	(140,982)
		405,483	**300,616**
	The effective interest rate on long term borrowings as at 31 December 2022 was 10% (2021: 9%)		

i) Summary of borrowing arrangements

a) The bank has a term loan facility of up to sh.300 Million with The Co-operative Bank of Kenya Limited. The term loan attracts interest at a rate of 11% p.a and is repayable within 60 months on a monthly basis. The loan is secured by a general lien over all the company's collection accounts held with The Co-operative Bank of Kenya Limited and a floating debenture over all assets of the company, with a valuation of ksh.120 Million to be up-stamped to ksh.269 Million.

b) There was an additional loan facility with Middle East Bank of Ksh. 120 Million. The interest of the facility is 13.5% p.a to be repaid within 5 years on a revolving basis. The purpose of the loan was to finance the working capital. The loan is secured by a lien over the Company's fixed deposit funds of Sh. 120 Million.

c) Plan International loan is interest free and is unsecured.

d) BNP - Profit Program loan is a fund established by the National Treasury for the purpose of availing credit to participating Microfinance Bank institutions to support rural and agriclutural access to credit on a six year program effective from December 2010. SMEP Microfinance Bank Public Limited Company joined the program in December 2012. The loan tenure is 10 years with a four year grace period all inclusive. The loan shall be repaid in twelve equal consecutive semi-annual installments at the rate of 5% p.a. on a reducing balance.

e) Rabobank Foundation provided a term loan facility of ksh.30 Million at an interest rate of 9% p.a repayable within 72 months on a semi-annual basis. The loan is secured by a joint and several liability agreement between the National Council of Churches of Kenya and Smep.

		Group 2022 Kshs '000'	Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
24	**Other liabilities**			
	Leave pay provision (note 24(a))	3,566	3,566	4,142
	Sundry payables	26,125	19,032	82,835
	Due to related party note (note 26(b))	1,199	1,199	1,199
		30,890	**23,797**	**88,176**
a)	Movement in leave provision is as follows:			
	At start of year		4,142	3,275
	(Charge)/credit for the year		(576)	867
	At the year end		**3,566**	**4,142**

25 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over all the other party in making financial or operational decisions.

All transactions with related parties are at arm's length in the normal course of business, and on terms conditions similar to those applicable to other customers.

SMEP Bancassurance Intermediary Limited, as a subsidiary, is fully owned by SMEP Microfinance Bank Public Limited Company

SMEP Microfinance Bank Public Limited Company is a subsidiary of Small and Micro Enterprise Program Limited, a company limited by guarantee.

Small and Micro Enterprise Program Limited, a company limited by guarantee is owned by National Council of Churches of Kenya (NCCK)

a) Transactions

The remuneration of members of key management during the year was as follows:-

		Group 2022 Kshs '000'	Bank 2021 Kshs '000'
	Salaries and other benefits	**44,886**	**33,687**
	Rent charged by NCCK	**7,330**	**8,411**
b)	**Balances**		
	Due to related parties		
	Small and Micro Enterprise Programme	(1,199)	(1,199)
	Due from related parties		
	National Council of Churches of Kenya (loan)	487	1,793
	Loans to staff	4,556	5,337
	Loans to directors	7,196	3,864
		11,040	**9,795**

The effective interest rate on staff loans and loans to directors is 13.5% and 20% respectively.

26 . Share capital and share premium

As at 31 December 2022 the authorised share capital of the company comprised of 1,100,000,000 (2021: 480,000,000) ordinary shares with a par value of Shs 5. The issued shares as at 31 December 2022 are 111,651,160 (2021: 108,595,344) and are fully paid. Issued and fully paid ordinary shares have a par value of Shs 5, carry one vote per share and a right to dividend.

		Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
27	**Funds awaiting allotment**		
	At 1 January	25,569	25,569
	Allotted shares	(25,569)	-
	At 31 December	**-**	**25,569**

		Group 2022 Kshs '000'	Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
28	**Accumulated losses**			
	As at 1 January	(333,792)	(333,792)	(310,804)
	Profit for the year	7,528	2,520	(22,988)
		(326,264)	**(331,273)**	**(333,792)**

		Group 2022 Kshs '000'	Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
29	**Statutory reserves**			
	Graduated scale provisions		14,002	130,876
	IFRS 9 provisions		421,392	378,993

In 2015, Kenya Revenue Authority ("KRA") carried out a tax audit on Pay as You Earn, Value Added Tax and Withholding Tax for the years 2011 to 2015 and issued a preliminary assessment Shs 75,496,248. The amount disclosed as a contingent liability represents management's estimate of the tax liability whose prospects of waiver by the Kenya Revenue Authority are considered good.

		Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
30	**Contingent liabilities**		
	Contingent liabilities	**58,736**	**58,736**

In 2015, Kenya Revenue Authority ("KRA") carried out a tax audit on Pay as You Earn, Value Added Tax and Withholding Tax for the years 2011 to 2015 and issued a preliminary assessment Shs 75,496,248. The amount disclosed as a contingent liability represents management's estimate of the tax liability whose prospects of waiver by the Kenya Revenue Authority are considered good.

Other contingent liabilities represent legal cases in the ordinary course of business. The directors have determined that the probability of occurrence of a liability are remote.

		Bank 2022 Kshs '000'	Bank 2021 Kshs '000'
31	**Capital commitments**		
	Authorised but not contracted for	**82,600**	**64,000**

'Capital commitments comprise of funds committed for acquiring ICT hardware infrastructure, motorvehicle and branch renovations.

The company has accumulated losses from business operations of the last three years as shown above. The directors have reviewed the business performance as noted in the directors' report. Necessary plans are being undertaken to ensure the company's business is profitable in foreseeable future.

32 Subsequent events

None as at the year end.

33 Incorporation

The company is domiciled and incorporated in Kenya under the Kenyan Companies Act.

34 Comparatives

These financial statements are presented in Kenya Shillings rounded to the nearest thousands (Sh'000), which is also the functional currency.

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

35 Ultimate holding company

The immediate holding company is Small and Microenterprise Programme (a company limited by guarantee). The ultimate holding entity is the National Council of Churches of Kenya.

smepBank

FORM OF PROXY

I/we ____

____

being a member/members of SMEP Microfinance Bank Public Limited Company hereby appoint:

____

of (address):____

or failing him/her:____

of (address): ____

and failing him/her the Chairman of the meeting to be my/our proxy, to vote for me/us and on my/ourbehalf at the Annual General Meeting of the Company to be held on Friday, 5 May 2023, or at anyadjournment thereof.

Given under my/our hands this______________________________________day of

____2023.

Signed:____

Please clearly mark the box below to instruct your proxy how to vote. If no instruction is given, your proxy will vote or withhold his or her vote at his or her discretion. By signing the Proxy Form, you authorize your proxy to vote or withhold his or her vote as he or she thinks fit in relation to any other matter which is properly put before the meeting. The overriding vote on each resolution shall be the vote cast at the meeting by the duly appointed proxy.

	RESOLUTION	FOR	AGAINST	WITHHELD
1.	**Annual Report and Financial Statements for the year ended 31 December 2022** To receive, consider and if approved, adopt the Company's audited financial statements for the year ended 31December 2022, together with the reports of the Chairman, Directors and Auditors thereon.			
2.	**Election of Directors**			
	i. Mr. Canon Chris Kinyanjui Kamau, a director retiring by rotation who being eligible offers herself for re-election in accordance with Article 111 of theCompany's Articles of Association.			
	ii. Mr. James Jeremiah Nyokang'i, a director retiring by rotation who being eligible offers herself for re-election in accordance with Article 111 of theCompany's Articles of Association.			
3.	**Re-Appointment of Auditors Mazars a**			
	To note that auditors Mazars will continue in office in accordance with the provisions of Section 721(2) of the Companies Act, 2015 and to authorize the Directors to fix their remuneration for the ensuing financial year.			
4.	**Director's Remuneration**			
	To approve the remuneration of Directors for the period ended 31st December 2022.			

ELECTRONIC COMMUNICATIONS CONSENT FORM
Please complete in BLOCK CAPITALS

Full name of Proxy(s):____

____

Address:

____

Mobile Number [ ]

Date: _______________________________

Signature: _______________________________

Please tick ONE of the boxes below;

Approval of Registration

I/WE approve to register to participate in the virtual Annual General Meeting to be held on 5th May 2023. [ ]

Consent for use of the Mobile Number provided
I/WE would give my/our consent for the use of the mobile number provided for purposes of voting at the AGM. [ ]

Proxy Form Notes:

1. If a member is unable to attend personally, this Proxy Form should be completed and returned to reach the Company's share registrar, **Image Registrars Limited,** 5th Floor, ABSA TOWERS, (formerly Barclays Plaza), Loita Street, P.O. Box 9287, GPO 00100, Nairobi, or via email to **SMEPAGM@image.co.ke** to arrive not later than **10:00 a.m.** on **3rd May 2023,** i.e., 48 hours before the meeting or any adjournment thereof.
2. In case of a member being a corporate body, the Proxy Form must be under its common seal or under the hand of an officer or duly authorized attorney of such corporate body.
3. As a shareholder you are entitled to appoint one or more proxies to exercise all or any of your shareholder rights to attend and to speak and vote on your behalf at the meeting. The appointment of the Chairman of the meeting as proxy has been included for convenience. To appoint as a proxy any other person, insert the full name of your proxy in the space provided. A proxy need not to be a shareholder of the Company.
4. Completion and submission of the Proxy Form will not prevent you from attending the meeting and voting at the meeting, in which case any votes cast by your proxy will be excluded.
5. To be valid the Proxy Form should be completed, signed and delivered (together with a power of attorney or other authority (if any) under which it is assigned, or a notarized certified copy of such power or authority) to Image Registrars Limited, ABSA TOWERS (formerly Barclays Plaza), 5th Floor, Loita Street and address P.O. Box 9287-00100 Nairobi not later than 10.00 am on 3rd May 2023 or, in the case of a poll taken subsequent to the date of the meeting, or any adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll which is taken more than 48 hours after the day of the meeting or adjourned meeting.
6. In the case of a company being a shareholder then this Proxy Form must be executed under its common seal or signed on its behalf by an officer of that company or an authorized attorney for that company.
7. A "vote withheld" option has been included on the Proxy Form. The legal effect of choosing this option on any resolution is that you will be treated as not having voted on the relevant resolution. The number of votes in respect of which votes are withheld will, however, be counted and recorded, but disregarded in calculating the number of votes for or against each resolution.

Notes:


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SMEP Microfinance Bank PLC

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0712 693 382 • 0736 118 723

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