SBM BANK (KENYA) LIMITED
ANNUAL REPORT AND CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

SBM BANK (KENYA) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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BOARD OF DIRECTORS

Director's name	Nationality	Position	Date of appointment	Date of resignation	Percentage of individual shareholding in the Bank as at 31 December 2023	Percentage of individual shareholding in the Bank as at 31 December 2022	Number of board meetings attended
Sattar Hajee Abdoula	Mauritian	Non-Executive Director (Chairman)	11-Nov-20		-	-	8/8
Moezz Mir	Kenyan	Executive Director/Chief Executive Officer	01-Nov-18		-	-	8/8
Jotham Mutoka	Kenyan	Executive Director/Deputy CEO & Chief Commercial Officer	10-Aug-17		-	-	8/8
Sharad Rao	Kenyan	Non-Executive Director	10-May-17		-	-	8/8
James McFie	Kenyan	Non-Executive Director	10-May-17		-	-	8/8
Flora Mutahi	Kenyan	Non-Executive Director	10-May-17		-	-	8/8
Nayen Koomar Ballah	Mauritian	Non-Executive Director	10-May-17		-	-	5/8
Shakilla Jhungeer	Mauritian	Non-Executive Director	26-Oct -21		-	-	8/8
Raoul Gufflet	Mauritian	Non-Executive Director	26-Nov-21		-	-	8/8
Sharon Ramdenee	Mauritian	Non-Executive Director	23-Mar-22		-	-	7/8

REGISTERED OFFICE AND HEAD OFFICE

Riverside Mews Building
Riverside Drive
P.O. Box 34886 – 00100
Nairobi, Kenya

PRINCIPAL SHAREHOLDERS AS AT 31 DECEMBER 2023

SBM Africa Holdings Limited	- 100%

PRINCIPAL OFFICERS AS AT 31 DECEMBER 2023

Moezz Mir	- Chief Executive Officer (CEO)
Jotham Mutoka	- Deputy CEO & Chief Commercial Officer
Amrit Gayan	- Chief Operating Officer
Andrew Munyao	- Chief Finance Officer
Edgar Mwandawiro	- Chief Risk Officer
George Odete	- Director, Legal & Company Secretary

COMPANY SECRETARY

George Odete
Certified Public Secretary
P.O. Box 34886 -00100
Nairobi, Kenya.

LEGAL ADVISORS

Various. A list is available at the Company premises.

PRINCIPAL VALUERS

Various. A list is available at the Company premises.

PRINCIPAL CORRESPONDENT BANKS

Citibank New York	- United States of America
Citibank London	- United Kingdom
Standard Chartered Bank, London	- United Kingdom
Standard Chartered Bank, New York	- United States of America
Standard Chartered Bank, China	- China
SBM Bank, India	- India
Standard Chartered Bank, Frankfurt	- Germany
Standard Chartered Bank, Tokyo	- Japan
Mashreq Bank, UAE	- United Arab Emirates
Standard Bank of South Africa	- South Africa
Stanbic Bank, Uganda	- Uganda
SBM Bank (Mauritius) Limited	- Mauritius
Development Credit Bank	- India
Rand Merchant Bank	- South Africa
Central Bank of Kenya	- Kenya

AUDITOR

Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P.O. Box 40092 – GPO 00100
Nairobi, Kenya.

HEAD OFFICE AND BRANCH NETWORK

Head Office
Riverside Mews Building
Riverside Drive
P.O. Box 34886 - 00100,
Nairobi

Riverside Branch
Riverside Mews Building
Riverside Drive
P.O. Box 34886 - 00100,
Nairobi

City Centre Branch
Jubilee Insurance Exchange Building, Ground Floor
Kaunda Street
P.O. Box 34886- 00100,
Nairobi

Village Market Branch
Greenhills Investments Limited
Limuru Road
P.O. Box 300-621,
Nairobi

Hurlingham Branch
Landmark Plaza
Argwings Kodhek
42426-00100,
Nairobi

Corner House Branch
Corner House, Ground Floor
Kimathi Street
P.O. Box 34886 - 00100,
Nairobi

Thika Branch
Nelleon Plaza
Kenyatta Road
P.O. Box 14087-00800,
Thika

Nakuru Branch
Spikes Centre
Kenyatta Avenue
P.O. Box 932-20100,
Nakuru

Donholm Branch
Eastgate Plaza
Outering Road
P.O. Box 78765-00507,
Nairobi

Diani Branch
Baharini Plaza
Beach Road,
P.O. Box 5287-80401,
Diani

Kisumu Branch
Tuffoam Mall
Jomo Kenyatta Highway
P.O. Box 1983-40100,
Kisumu

Eldoret Branch
Utamaduni House
Kenyatta Street
P.O. Box 6007-30100,
Eldoret

Diamond Plaza Branch
Diamond Plaza
Masari Road
P.O. Box 49434-00100,
Nairobi

Windsor, Ridgeways Branch
Ridgeways Mall
Kiambu road
P.O. Box 45403-00100,
Nairobi

BRANCH NETWORK (Continued)

Malindi Branch
Oasis Mall Plaza
Lamu Road
P.O. Box 1817-80200,
Malindi

Upperhill Branch
KMA Plaza
Chyulu Road/Mara Road
P.O. Box 48502-00100,
Nairobi

Strathmore Branch
Strathmore Research and Consultancy Centre,
Ole Sengale
P.O. Box 59857-00100,
Nairobi

Kisii Branch
Royal Tower
Hospital Road
P.O. Box 3200-40200,
Kisii

Nyali Branch
Nyali Centre
Links Road
P.O. Box 34363-80118,
Mombasa

SBM Elite Branch
ABC Place
Waiyaki Way
P.O. Box 40971-00100,
Nairobi

Sameer Park Branch
Sameer Business Park
Mombasa Road
P.O. Box 3365-00500,
Nairobi

Mtwapa Branch
Mtwapa Shopping Mall
Mombasa Road
P.O. Box 55070-00100,,
Mombasa

Rongai Branch
Masaai Mall, Ongata Rongai
Magadi road
P.O. Box 78780-00507,
Nairobi

Machakos Branch
Kitanga House
Mbolu Malu Road
P.O. Box 1059,
Machakos

Mombasa, Old Town Branch
Opposite Central Police Station
Makadara Road
P.O. Box 87087-00801
Mombasa

River Road Branch
Shamsh Kassam Building
River Road
P.O. Box 72134-00400,
Nairobi

Mombasa, Nyerere Rd Branch
SBM Building
Nyerere Road
P.O. Box 9538-80100,
Mombasa

Industrial Area Branch
Dar-es-Salaam Road
Industrial Area
P.O. Box 18605-00500,
Nairobi

BRANCH NETWORK (Continued)

Eastleigh Branch
Ismariot Hotel
General Waruinge Street, Ground Floor, Eastleigh
P.O.Box 69230-00100,
Nairobi

Kilimani, Lenana Rd Branch
1st Floor, 197 Lenana Place
Lenana Road
P.O. Box 27631- 00100,
Nairobi

Madaraka Xpress Branch
Total Petrol Station Dagoretti
Langata Road
P.O. Box 30736-00100,
Nairobi

Kitale Branch
Mega Centre Mall
Makasembo Road
P.O. Box 2501-40100,
Kitale

Narok Branch
Ol Talet Mall
Narok
P.O. Box 89-20500,
Narok

Kericho Branch
Ratan Plaza
Kenyatta Road
P.O. Box 222-20230,
Kericho

Westlands Branch
Westlands Square
1st Floor , Ring Road Parklands
P.O. Box 66092-00800,
Nairobi

Kilimani, Adlife Plaza Branch
Adlife Plaza
Ringroad Kilimani
P.O. Box 56129-00200,
Nairobi

Karen Branch
Watermark Business Park
Ndege Road - off Karen/Langata Road
P.O. Box 34886 - 00100,
Nairobi

Kilifi Xpress Branch
Kenol Kobil Service Station
Kilifi-Malindi Road Junction
P.O. Box 44202-00100,
Nairobi

Kasuku Xpress Branch
Kasuku Centre
Migori Road
P.O. Box 25261-00603,
Nairobi

Nakuru Xpress Branch
Westside Mall
Kenyatta Avenue, First Floor
P.O.Box 107-20100,
Nakuru

Mombasa, Jubilee Arcade Branch
Ground Floor, Jubilee Arcade
Moi Avenue
P.O. Box 83580 - 80100,
Mombasa

BOARD COMMITTEES

The Board committees as at the date of this report comprise:

Board Audit Committee	Board Credit Committee	Board Risk Management Committee	Remuneration and Nomination Committee	Board ICT Steering Committee	Board Strategy & Business Development Committee
COMPOSITION					
The Committee comprises three independent non-executive directors and one non-executive director.	The Committee comprises three independent non-executive directors and one non-executive director.	The Committee comprises two independent non-executive directors and five non-executive directors.	The Committee comprises three independent non-executive directors and four non-executive directors.	The Committee comprises one independent non-executive director and three non-executive directors.	The Committee comprises one independent non-executive director and three non-executive directors.
The Committee meets to review the external auditor's plans and reports, Group internal audit reports and any proposals/reports that affect the Group's internal control environment and corporate risk management/exposure and compliance.	The Committee reviews and oversees the overall lending position of the Bank, reviews and updates the Bank's credit policy from time to time, considers credit facilities applications, monitors and classifies all loans and advances as recommended by Central Bank of Kenya prudential guidelines and ensures adequate provisions and ensures effective procedures and resources to identify and manage irregular credits, minimize credit loss and maximize recoveries.	The committee ensures quality risk management of the Bank that at least encompasses all the risks as specified by the Central Bank of Kenya risk management guidelines. It reviews and assesses the effectiveness of all existing risk and compliance management policies and controls. The Committee also seeks professional advice on technical matters that are of importance in improving the risk management and compliance functions of the Bank.	The Committee is mandated to recruit the Bank's directors, review the structure, size and composition of the Board, identify, nominate and recommend the candidates to fill Board vacancies and ensure effective succession planning for both the Board and Senior Management. The Committee is also mandated to recruit all senior staff members of the Bank and set their remuneration package. It rewards and motivates all senior staff members who show exemplary performance in their duties. The committee oversees job analysis of all senior Bank positions to ensure that they are handled by the people that have the relevant skills.	The Committee is mandated to review the Bank's ICT strategic plans; track and evaluate the development and execution of ICT annual plans and projects; determine the priorities of IT projects within the Bank and guide on the general course of the ICT operations to address these priorities. It provides oversight and guidance on all matters related to the IT Transformation Roadmap Program and reviews, coordinates and arbitrates on major strategic ICT activities, project decisions and prioritise these ICT plans across the Bank.	The Committee is mandated to review the progress in the execution of the initiatives put in place to achieve the Bank's Strategic objectives. It also periodically reviews the evolution of the Bank's results and proposes appropriate corrective actions to ensure attainment of the Strategic Objectives. It also reviews the Bank's infrastructural requirements to align with the delivery of the envisaged Strategy and reviews the challenges faced in attaining the Bank's Strategic Business Objectives and proposes appropriate solutions to address the challenges.

BOARD COMMITTEES (Continued)

BOARD COMMITTEE MEETINGS					
Board Audit Committee	Board Credit Committee	Board Risk Management Committee	Remuneration & Nomination Committee	Board ICT Steering Committee	Board Strategy & Business Development Committee
FREQUENCY OF MEETINGS PER ANNUM					
5	5	4	4	4	6
CHAIRPERSON					
James McFie (Independent non-executive Director)	Flora Mutahi (Independent non-executive director)	Sharad Rao (Independent non-executive Director)	Sharad Rao (Independent non-executive Director)	James McFie (Independent non-executive Director)	Sharon Ramdenee (Non-executive Director)
MEMBERS					
Flora Mutahi*(Independent non-executive Director)* Sharad Rao (*Independent non-executive Director)* Shakilla Jhungeer *(Non-Executive Director)*	Sharad Rao (*Independent non-executive Director)* James McFie *(Independent non-executive Director)* Sharon Ramdenee *(Non-executive Director)*	Nayen Koomar Ballah (*Non-executive Director*) James McFie (*Independent non-executive Director)* Sattar Hajee Abdoula (Non-*executive Director)* Raoul Gufflet *(Non-executive director)* Sharon Ramdenee *(Non-executive director)* Shakilla Jhungeer (Non-Executive Director)	James McFie (*Independent non-executive Director*) Flora Mutahi *(Independent non-executive Director*) Sattar Hajee Abdoula (Non-*executive Director)* Shakilla Jhungeer *(Non-executive Director)* Sharon Ramdenee *(Non-executive Director)* Raoul Gufflet *(Non-executive Director)*	Shakilla Jhungeer *(Non-executive Director)* Raoul Gufflet *(Non-executive director)* Sharon Ramdenee *(Non-executive Director)*	Shakilla Jhungeer *(Non-executive Director)* Raoul Gufflet *(Non-executive director)* James McFie *(Non-executive Director)*

GOVERNANCE PROCESS

Corporate Governance is the process by which companies are directed, controlled and held to account. SBM Bank (Kenya) Limited and its subsidiaries adopt the best practice in Corporate Governance and are committed to continuously improve.

The Bank's Board is responsible for development of Corporate Governance practice and ensuring compliance by the Bank and its subsidiaries. It does this through board committees and by having in place business principles and practice, internal control and risk management processes that seek to ensure efficient utilization of resources and increase in stakeholders' confidence.

The key features of the current Corporate Governance practices are as follows:

Board of Directors

The current Board of Directors consists of two executive directors and eight non-executive directors, three of whom are independent. The directors are chosen for their business knowledge and wide range of skills and experience.

The Board is responsible for setting the direction of the Group by establishing strategic objectives, key policies and approval of the budgets/plans. It meets at least quarterly, on pre-set dates, to review and monitor the implementation of strategies/business plans, review quarterly financial results, approve financial reports and maintain effective control over strategic, financial, operational and compliance issues.

To enable the Board to function effectively, directors are given appropriate and timely information which, in the case of board meetings, consist of comprehensive board papers covering regular business progress reports and discussion papers on specific matters.

Board evaluation

Each year the Board is required by the Central Bank of Kenya to review its mix of skills and experience and other qualities in order to assess its effectiveness in discharging its duties. The Board carried out a Board evaluation exercise in the course of 2023.

Committees of the Board

1. Board Audit Committee
2. Board Credit Committee
3. Risk Management Committee
4. Remuneration & Nomination Committee
5. Board ICT Steering Committee
6. Board Strategy & Business Development Committee

Internal controls

The Board has the ultimate responsibility for monitoring and reviewing the effectiveness of the Group's internal control procedures and continuously improving upon them.

The systems are designed to manage, rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material financial misstatements or loss. The systems are designed to:

- Identify and manage business risks;
- Identify and adopt best business practice;
- Maintain compliance with appropriate legislation;
- Maintain proper accounting records;
- Provide reliable financial information; and
- Safeguard assets.

GOVERNANCE PROCESS (Continued)

Internal controls (Continued)

The Board satisfies itself that the internal control framework is operating effectively through:

- Having terms of reference for the Board and each of its committees;
- A clear organizational structure with documented delegation of authority;
- Defined procedures for the approval of major transactions;
- Establishment and monitoring of the internal control framework by the management; and
- Review of the internal and external audit reports.

Conflict of interest

The directors are required to act in the best interest of the Group at all times. It is the Group's policy to ensure that directors avoid putting themselves in positions whereby their interests conflict with those of the Group. Any business transacted with the Group's directors and/or their companies must be at arm's length.

The Board has adopted a policy, which also applies to management and staff, which ensures that they disclose all possible conflict of interest sources and are required to exclude themselves in decisions where conflict of interest may arise.

Directors' emoluments and loans

The aggregate amount of emoluments paid to directors for services rendered during the year is disclosed in Notes 12 and 35(d) to the financial statements.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Group is a party, under which directors acquired benefits by means of acquisition of the Group's shares. Aggregate amount of loans advanced to directors is summarized in note 35(d) to the financial statements.

Corporate social responsibility

The Group recognizes its social responsibilities to improve the well-being of the society and is committed to being a responsible citizen and believes in giving back to society.

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2023 which show the state of affairs of SBM Bank (Kenya) Limited (the "Bank") and its subsidiaries (together the "Group").

1. INCORPORATION

The Group is domiciled in Kenya and comprises entities incorporated as private companies limited by shares under the Kenyan Companies Act, 2015. The subsidiaries are disclosed in note 20. The address of the registered office is set out on page 2.

2. DIRECTORATE

The directors who held office during the year and to the date of this report are set out on page 1.

3. PRINCIPAL ACTIVITIES OF THE GROUP

The principal activities of the Group are the provision of banking, financial, insurance brokerage and related services. The Bank is licensed under the Kenyan Banking Act, Cap 488 and provides banking, financial and related services.

4. DIVIDENDS

The directors do not recommend the declaration of a dividend for the year (2022: NIL).

5. RESULTS

	Group		Bank	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Profit before tax	129,642	48,514	129,650	48,524
Income tax credit	21,140	81,933	21,140	81,933
Profit for the year	150,782	130,447	150,790	130,457

6. BUSINESS REVIEW

The Group recorded a pre-tax profit of KShs. 130 million compared to KShs. 49 million in 2022.The growth in pre-tax profit has been supported by increase of net interest income from KShs. 3,174 million in 2022 to KShs. 3,812 million in 2023. In this regards, the Group has amortized 98% of the negative goodwill over the 5 years of operations after the business combination completed in 2018.

At the backdrop of the difficult macroeconomic environment, the Group was resilient and closed the year with a total asset base of KShs. 95 billion in 2023 compared to total assets of Kshs. 82 billion reported in 2022.

As at close of the year, the Group operated 40 branches spread across the country with customer deposits increasing by 29% from Kshs. 49 billion in 2022 to Kshs. 63 billion in 2023. Net loans and advances increased by 19% from KShs. 38.4 billion in 2022 to KShs. 45.6 billion. The robust growth was attributable to new loans granted during the year as well as the continuous efforts on recovery of the non-performing credit facilities. The investment in Government securities as at close of the year was KShs. 35 billion contributing positively to the Group interest income. Overall, over 90% of the Group assets were retained in interest earning assets, the balance mainly being accounted for by cash and cash equivalents held for investment and day to day bank operations.

The Group delivered total operating income of KShs. 5.2 billion with KShs. 3.8 billion coming from net interest income and KShs. 1.4 billion from non-interest income. Net fees and commissions income was KShs. 481 million while income arising from dealing in foreign currencies aggregated to KShs. 810 million and other income earned was KShs. 95 million.

The Group total non-interest expenses for the year was KShs. 4.8 billion a slight increase from KShs. 4.6 billion costs incurred in 2022. Depreciation and amortization charge to income statement stood at KShs. 496 million of which KShs 211 million relates to depreciation on right-of-use assets as per IFRS 16.

The Bank's core capital as at end of 2023 was KShs. 8.1 billion and was in compliance with all the Central Bank of Kenya (CBK) ratios. Core capital to total risk weighted assets ratio was 14.2% compared to CBK minimum of 10.5%. Liquidity ratio of the bank stood at 35.7% compared to CBK minimum of 20%. Both ratios imply that the Bank has sufficient headroom for more business.

7. STATEMENT AS TO DISCLOSURE TO THE GROUP'S AUDITOR

With respect to each director at the time this report was approved:

a) there is, so far as the person is aware, no relevant audit information of which the Group's auditor is unaware; and
b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

8. TERMS OF APPOINTMENT OF THE AUDITOR

Deloitte & Touche LLP have been appointed for the 2023 annual audit engagement in accordance with the Company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

By order of the Board

Company Secretary

19th March 2024

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and Bank as at the end of the financial year and of their profit or loss for that year.

It also requires the directors to ensure that the Bank and its subsidiaries keep proper accounting records that: (a) show and explain the transactions of the Bank and the subsidiaries; (b) disclose, with reasonable accuracy, the financial position of the Bank and the subsidiaries; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Kenyan Companies Act, 2015.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
(ii) selecting suitable accounting policies and applying them consistently; and;
(iii) making accounting estimates and judgments that are reasonable in the circumstances.

Having made an assessment of the Bank's and the subsidiaries' 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 Bank's and its subsidiaries' ability to continue as a going concern.

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

Approved by the Board of Directors on 19 MARCH 2024 and signed on its behalf by:

....	....
Moezz Mir	James McFie
Director	Director

Deloitte.

Deloitte & Touche LLP
Deloitte Place
Waiyaki Way
Muthangari
P.O. Box 40092 - GPO 00100
Nairobi
Kenya

Tel: +254 (20) 423 0000
Cell: +254 (0) 719 039 000
Email: admin@deloitte.co.ke
www.deloitte.com

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SBM BANK (KENYA) LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate financial statements of SBM Bank (Kenya) Limited (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries (together, the "Group"), set out on pages 16 to 125, which comprise the consolidated and separate statements of financial position as at 31 December 2023, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the financial statements including material accounting policy information.

In our opinion, the consolidated and separate financial statements give a true and fair view of the financial position of the Group and of the Bank at 31 December 2023 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Statement of Corporate Governance and the Report of the Directors but does not include the consolidated and separate financial statements and our auditor's report thereon, other than that prescribed by the Kenyan Companies Act, 2015.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or 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.

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REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

Responsibilities of the directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and 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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate 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 consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SBM BANK (KENYA) LIMITED (CONTINUED)

REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

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

Report of the Directors

In our opinion, the information given in the report of the directors on pages 8 - 11 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Fredrick Okwiri, Practising certificate No. 1699.

Fredrick Okwiri

For and on behalf of Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Nairobi

28 March 2024

SBM BANK (KENYA) LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 KShs' 000	2022 KShs' 000
Interest income	8	9,580,667	8,097,259
Interest expense	8	(5,769,034)	(4,923,055)
Net interest income		3,811,633	3,174,204
Fee and commission income	9	499,382	444,431
Fee and commission expense	9	(18,268)	(16,910)
Net fee and commission income		481,114	427,521
Gains arising from dealing in foreign currencies	10(a)	810,409	635,635
Other operating income	10(b)	95,313	89,961
		905,722	725,596
Non-interest income		1,386,836	1,153,117
Operating income		5,198,469	4,327,321
Personnel expenses	11	(2,308,481)	(2,156,580)
Other operating expenses	12(a)	(1,993,850)	(1,918,950)
Depreciation and amortization	12(b)	(495,505)	(490,992)
Non-interest expense		(4,797,836)	(4,566,522)
Profit/(loss) before impairment		400,633	(239,201)
Allowance for credit impairment for the year	13(b)	(808,828)	(538,295)
Recoveries of impaired loans and advances	13(b)	534,283	813,970
Other credit provisions write back	13(b)	3,554	12,040
Profit before income tax		129,642	48,514
Income tax credit	14(b)	21,140	81,933
Profit for the year		150,782	130,447
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in subsequent periods (net of tax):			
Net profit/(loss) on government securities designated at fair value through other comprehensive income		296,236	(861,885)
Total other comprehensive profit/(loss)		296,236	(861,885)
Total comprehensive profit/(loss) for the year		447,018	(731,438)
Earnings per share			
Basic and diluted earnings	15	KShs 0.0029	KShs 0.0025

SBM BANK (KENYA) LIMITED
SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 KShs' 000	2022 KShs' 000
Interest income	8	9,580,667	8,097,259
Interest expense	8	(5,769,034)	(4,923,055)
Net interest income		3,811,633	3,174,204
Fee and commission income	9	499,382	444,431
Fee and commission expense	9	(18,268)	(16,910)
Net fee and commission income		481,114	427,521
Gains arising from dealing in foreign currencies		810,409	635,635
Other operating income	10	95,313	89,961
		905,722	725,596
Non-interest income		1,386,836	1,153,117
Operating income		5,198,469	4,327,321
Personnel expenses	11	(2,308,481)	(2,156,580)
Other operating expenses	12(a)	(1,993,842)	(1,918,940)
Depreciation and amortisation	12(b)	(495,505)	(490,992)
Non-interest expense		(4,797,828)	(4,566,512)
Profit/(loss) before impairment		400,641	(239,191)
Allowance for credit impairment for the year	13(b)	(808,828)	(538,295)
Recoveries of impaired loans and advances	13(b)	534,283	813,970
Other credit provisions write back	13(b)	3,554	12,040
Profit before income tax		129,650	48,524
Income tax credit	14(b)	21,140	81,933
Profit for the year		150,790	130,457
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in subsequent periods (net of tax):			
Net profit/(loss) on government securities designated at fair value through other comprehensive income		296,236	(861,885)
Total other comprehensive profit/(loss)		296,236	(861,885)
Total comprehensive profit/(loss) for the year		447,026	(731,428)
Earnings per share			
Basic and diluted earnings	15	KShs 0.0029	KShs 0.0025

SBM BANK (KENYA) LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	Notes	2023 KShs' 000	2022 KShs' 000
ASSETS			
Cash and bank balances with Central Bank of Kenya	16(a)	3,415,758	2,833,798
Placements and balances with other banking institutions	16(b)	4,630,797	298,001
Loans and advances to customers	17	45,590,301	38,416,240
Financial assets at fair value through profit or loss	7	742,837	386,317
Government securities	18	35,242,401	35,359,129
Investment securities	19	2,841	1,614
Other assets	20	1,034,815	786,143
Property and equipment	22	862,318	554,502
Intangible assets	23	291,479	319,488
Right-of-use assets	24	768,739	707,372
Deferred tax asset	25	2,337,189	2,095,229
Total assets		94,919,475	81,757,833
LIABILITIES			
Deposits and balances from other banks	26	651,462	7,907,365
Customers' deposits	27	63,104,791	49,291,580
Current tax liabilities	14(c)	4,614	1,399
Lease liabilities	30	854,520	799,215
Other liabilities	29	1,089,468	931,032
Amounts due to Central Bank of Kenya	28	19,696,768	14,583,928
Financial liabilities at fair value through profit or loss	7	742,837	386,317
Total liabilities		86,144,460	73,900,836
EQUITY			
Share capital	31(a)	2,165,500	2,165,500
Shareholder's contribution pending allotment	31(b)	471,000	-
Share premium	31(c)	6,701,945	6,701,945
Preference share capital	31(d)	100,000	100,000
Accumulated losses		(1,351,531)	(1,679,296)
Fair value reserve	31(e)	(826,890)	(1,123,126)
Statutory loan loss reserve	31(f)	1,514,991	1,691,974
Total equity		8,775,015	7,856,997
Total equity and liabilities		94,919,475	81,757,833

The financial statements on pages 16 to 125 were approved and authorized for issue by the Board of Directors on ....19....MARCH....... 2024 and signed on its behalf by:

Moezz Mir
Director

James McFie
Director

SBM BANK (KENYA) LIMITED
SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	Notes	2023 KShs' 000	2022 KShs' 000
ASSETS			
Cash and bank balances with Central Bank of Kenya	16(a)	3,415,758	2,833,798
Placements and balances with other banking institutions	16(b)	4,630,797	298,001
Loans and advances to customers	17	45,590,301	38,416,240
Financial assets at fair value through profit or loss	7	742,837	385,317
Government securities	18	35,242,401	35,359,129
Investment securities	19	2,801	1,574
Other assets	20	1,034,815	786,143
Property and equipment	22	862,318	554,502
Intangible assets	23	291,479	319,488
Right-of-use assets	24	768,739	707,372
Deferred tax asset	25	2,337,189	2,095,229
Total assets		94,919,435	81,757,793
LIABILITIES			
Deposits and balances from other banks	26	651,462	7,907,365
Customers' deposits	27	63,117,067	49,305,812
Current tax liabilities	14(c)	4,614	1,399
Lease liabilities	30	854,520	799,215
Other liabilities	29	1,069,307	908,923
Amounts due to Central Bank of Kenya	28	19,696,768	14,583,928
Financial liabilities at fair value through profit or loss	7	742,837	386,317
Total liabilities		86,136,575	73,892,959
EQUITY			
Share capital	31(a)	2,165,500	2,165,500
Shareholder's contribution pending allotment	31(b)	471,000	-
Share premium	31(c)	6,701,945	6,701,945
Preference share capital	31(d)	100,000	100,000
Accumulated losses		(1,343,686)	(1,671,459)
Fair value reserve	31(e)	(826,890)	(1,123,126)
Statutory loan loss reserve	31(f)	1,514,991	1,691,974
Total equity		8,782,860	7,864,834
Total equity and liabilities		94,919,435	81,757,793

The financial statements on pages 16 to 125 were approved and authorized for issue by the Board of Directors on ..19.......MARCH........ 2024 and signed on its behalf by:

Moezz Mir
Director

James McFie
Director

SBM BANK (KENYA) LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital KShs '000	Contribution pending allotment KShs '000	Preference share capital KShs '000	Share premium KShs '000	Accumulated losses KShs '000	Fair value reserve KShs '000	Statutory loan loss reserve KShs '000	Total KShs '000
	Note 31(a)	*Note 31(b)*	*Note 31(d)*	*Note 31(c)*		*Note 31(e)*	*Note 31(f)*	
YEAR ENDED 31 DECEMBER 2023								
As at start of year	2,165,500	-	100,000	6,701,945	(1,679,296)	(1,123,126)	1,691,974	7,856,997
Contributions pending allotment	-	471,000	-	-	-	-	-	471,000
Total comprehensive income net of tax								
Profit for the year	-	-	-	-	150,782	-	-	150,782
Transfer to statutory loan loss	-	-	-	-	176,983	-	(176,983)	-
Other comprehensive income	-	-	-	-		296,236	-	296,236
Total comprehensive income for the year	-	-	-	-	327,765	296,236	(176,983)	447,018
As at end of year	2,165,500	471,000	100,000	6,701,945	(1,351,531)	(826,890)	1,514,991	8,775,015
YEAR ENDED 31 DECEMBER 2022								
As at start of year	2,165,500		100,000	6,701,945	(1,538,046)	(261,241)	1,420,277	8,588,435
Total comprehensive income net of tax								
Profit for the year	-	-	-	-	130,447	-	-	130,447
Other comprehensive loss	-	-	-	-	-	(861,885)	-	(861,885)
Total comprehensive income for the year	-	-	-	-	130,447	(861,885)	-	(731,438)
Transfer to statutory loan loss reserve	-	-	-	-	(271,697)	-	271,697	-
As at end of year	2,165,500	-	100,000	6,701,945	(1,679,296)	(1,123,126)	1,691,974	7,856,997

SBM BANK (KENYA) LIMITED
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

YEAR ENDED 31 DECEMBER 2023	Share capital KShs '000	Contribution pending allotment KShs '000	Preference share capital KShs '000	Share premium KShs '000	Accumulated losses KShs '000	Fair value reserve KShs '000	Statutory loan loss reserve KShs '000	Total KShs '000
	Note 31(a)	*Note 31(b)*	*Note 31(d)*	*Note 31(c)*		*Note 31(e)*	*Note 31(f)*	
As at start of year	2,165,500	-	100,000	6,701,945	(1,671,459)	(1,123,126)	1,691,974	7,864,834
Increase in shareholder's Contributions pending allotment	-	471,000	-	-	-	-	-	471,000
Total comprehensive income net of tax								
Profit for the year	-	-	-	-	150,790	-	-	150,790
Transfer to statutory loan loss	-	-	-	-	176,983	-	(176,983)	-
Other comprehensive income	-	-	-	-		296,236	-	296,236
Total comprehensive income for the year	-	-	-	-	327,773	296,236	(176,983)	447,026
As at end of year	2,165,500	471,000	100,000	6,701,945	(1,343,686)	(826,890)	1,514,991	8,782,860
YEAR ENDED 31 DECEMBER 2022								
As at start of year	2,165,500	-	100,000	6,701,945	(1,530,219)	(261,241)	1,420,277	8,596,262
Total comprehensive income net of tax								
Profit for the year	-	-	-	-	130,457	-	-	130,457
Other comprehensive income						(861,885)	-	(861,885)
Total comprehensive income for the year	-	-	-	-	130,457	(861,885)	-	(731,428)
Transfer to statutory loan loss reserve	-	-	-	-	(271,697)	-	271,697	-
As at end of year	2,165,500		100,000	6,701,945	(1,671,459)	(1,123,126)	1,691,974	7,864,834

SBM BANK (KENYA) LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 KShs' 000	2022* KShs' 000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		129,642	48,524
Other non-cash items included in profit before tax	34(a)	(3,070,489)	(3,004,247)
Change in operating assets	34(a)	(7,688,005)	(5,892,645)
Change in operating liabilities	34(a)	13,766,754	(10,871,942)
Interest received	34(a)	8,727,659	7,479,748
Interest paid	34(a)	(5,508,836)	(5,103,891)
Tax paid	14(c)	(216,205)	(544,350)
Net Cash generated from/ (used in) operating activities		6,140,520	(17,888,803)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	22	(507,499)	(21,818)
Purchase of intangible assets	23	(60,511)	(262,215)
Proceeds from disposal of property and equipment		-	6,590
Net cash used in investing activities		(568,010)	(277,443)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of amounts due to Central Bank of Kenya	28	(3,714,000)	(3,992,626)
Receipts from Central Bank of Kenya borrowings	28	8,538,767	8,284,840
Repayment of principal portion of lease liabilities		(216,889)	(191,243)
Proceeds from share capital injection	31(b)	471,000	-
Net cash generated from financing activities		5,078,878	4,100,971
		-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		10,651,388	(14,065,275)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		(6,130,314)	8,020,392
Foreign currency exchange difference		1,202,043	(85,431)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	34(c)	5,723,116	(6,130,314)

*Comparative figures are restated. Refer to note 34.

SBM BANK (KENYA) LIMITED
SEPARATE STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 KShs' 000	2022* KShs' 000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		129,650	48,524
Other non-cash items included in profit before tax	34(a)	(3,070,489)	(3,004,247)
Change in operating assets	34(a)	(7,688,006)	(5,890,403)
Change in operating liabilities	34(a)	13,766,746	(10,871,942)
Interest received	34(a)	8,727,659	7,479,748
Interest paid	34(a)	(5,508,836)	(5,103,891)
Tax paid	14(c)	(216,205)	(546,592)
Net Cash generated from/ (used in) operating activities		6,140,519	(17,888,803)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	22	(507,499)	(21,818)
Purchase of intangible assets	23	(60,511)	(262,215)
Proceeds from disposal of property and equipment		-	6,590
Net cash used in investing activities		(568,010)	(277,443)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of amounts due to Central Bank of Kenya	28	(3,714,000)	(3,992,626)
Receipts from Central Bank of Kenya borrowings	28	8,538,767	8,284,840
Repayment of principal portion of lease liabilities		(216,889)	(191,243)
Proceeds from share capital injection	31(b)	471,000	-
Net cash generated from financing activities		5,078,878	4,100,971
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		10,651,387	(14,065,275)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		(6,130,314)	8,020,392
Foreign currency exchange difference		1,202,043	(85,431)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	34(c)	5,723,116	(6,130,314)

*Comparative figures are restated. Refer to note 34.

1. REPORTING ENTITY

SBM Bank (Kenya) Limited ("the Bank") is incorporated as a limited company in Kenya under the Kenyan Companies Act, 2015, and is domiciled in Kenya. The Bank is regulated by the Central Bank of Kenya. The address of its registered office is as shown on page 1.

The consolidated financial statements for the year ended 31 December 2023 comprise the Bank and its subsidiaries, Finsure Insurance Brokers Limited, Rover Investment Limited, Richardson Properties Limited and Kentbury Investments Limited and SBM Agency (together referred to as the "Group" and individually as the "Bank") which provide banking, financial, insurance brokerage and related services in Kenya.

The group is controlled by SBM Holdings Ltd, a company incorporated in Mauritius.

The Bank operates from 41 locations within Kenya which include the head office and branches.

2. BASIS OF PREPARATION

2.1. Statement of compliance

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

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

2.2. Basis of measurement

The financial statements of the Group have been prepared on the historical cost basis except for buildings, investment properties, and financial assets carried at fair value in the statement of financial position.

2.3. Functional and presentation currency

These consolidated and separate financial statements are presented in Kenya Shillings (KShs), which is the Group's functional currency.

Items included in the financial statements are measured using the currency of primary economic environment in which the entity operates i.e. Kenya Shillings. Financial information presented in Kenya Shillings has been rounded to the nearest thousand (KShs '000), except as otherwise indicated.

2.4. Material accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires directors to exercise judgment in the process of applying the Group's accounting policies. Although these estimates are based on the directors' best knowledge of current events and circumstances, actual results may differ from those estimates. Note 6 on 'significant accounting judgements, estimates and assumptions' highlights the areas that involve a higher level of judgement, or where the estimates or assumptions used are material to the financial statements.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries as at 31 December 2023. Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is achieved by the Group over an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); and
- Exposure, or rights, to variable returns from its involvement with the investee; and,
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee including:

- The contractual arrangement(s) with other vote holders of the investee
- Rights from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed off during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

3.2 Business combinations, goodwill or bargain purchase gain

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.2. Business combinations, goodwill or bargain purchase gain (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3.3 Revenue recognition

Income is derived substantially from banking, insurance brokerage business and renting of property.

Revenue from contracts with customers is recognised when control of goods and services are transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for the goods and services. The Group has generally concluded that it is the principal in its revenue arrangements.

3.3.1 Recognition of interest income

3.3.1.1 The effective interest (EIR) method

Interest income is recorded using the effective interest (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at fair value through profit and loss (FVPL). Interest income on interest bearing financial assets measured at fair value through other comprehensive income (FVOCI) under IFRS 9, similarly are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.3 Revenue recognition (Continued)

3.3.1 Recognition of interest income (Continued)

3.3.1.1. The effective interest (EIR) method (continued)

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognized at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

3.3.1.2 Interest and similar income/expense

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

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

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognized using the contractual interest rate in net trading income and net gains/(losses) on financial assets at fair value through profit or loss, respectively.

3.3.2 Fee and commission income

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations, as explained further here below.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

3.3.2.1 Fee and commission income from services where performance obligations are satisfied over time.

Performance obligations satisfied over time are those which the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs. These include the following:

Loan commitment fees:

These are fixed annual fees paid by customers for loan and other credit facilities with the Bank, but where it is unlikely that a specific lending arrangement will be entered into with the customer and the loan commitment is not measured at fair value. The Bank promises to provide a loan facility for a specified period. As the benefit of the services is transferred to the customer evenly over the period of entitlement, the fees are recognised as revenue on a straight-line basis. Payment of the fees is due and received monthly in arrears.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.3 Revenue recognition (Continued)

3.3.2 Fee and commission income (Continued)

3.3.2.1 Fee and commission income from services where performance obligations are satisfied over time (Continued

Interchange fees:

The Bank provides its customers with debit and credit card processing services (i.e., authorisation and settlement of transactions executed with the Bank's credit cards) where it is entitled to an interchange fee for each transaction (i.e., when a credit cardholder purchases goods and services from merchants using the Bank's credit card). These services represent a single performance obligation comprised of a series of distinct daily services that are substantially the same and have the same pattern of transfer over the contract period. The fees vary based on the number of transactions processed and are structured as either a fixed rate per transaction processed or at a fixed percentage of the underlying cardholder transaction. The variable interchange fees are allocated to each distinct day, based on the number and value of transactions processed that day, and the allocated revenue is recognised as the entity performs.

3.3.2.2 Fee and commission income from providing services where performance obligations are satisfied at a point in time

Services provided where the Bank's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include custody fees, fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the acquisition of shares or other securities, or the purchase or sale of businesses, brokerage and underwriting fees.

Custody fees:

The Bank earns a fixed annual fee for providing its customers with custodial services, which include the safekeeping deposit lockers and purchase or sale of investment securities. These services represent a single performance obligation. Payment for these fees is due and received upfront.

Brokerage fees and commission:

The Bank buys and sells securities on behalf of its customers and receives a fixed commission for each transaction. The Bank's performance obligation is to execute the trade on behalf of the customer and revenue is recognised once each trade has been executed (i.e., on the trade date). Payment of the commission is typically due on the trade date. The Bank pays certain sales commission to agents for each contract that they obtain for some of its brokerage services. The Bank has elected to apply the optional practical expedient for costs to obtain a contract which allows it to immediately expense such sales commission because the amortisation period of the asset that it otherwise would have used is one year or less.

3.3.3 Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded on hedging transactions.

3.3.4 Net loss on financial assets and liabilities designated at fair value through profit or loss

Net loss on financial instruments at FVPL represents non-trading derivatives held for risk management purposes used in economic hedge relationship but not qualifying for hedge accounting relationships, financial assets and financial liabilities designated as at FVPL and also non-trading assets measured at FVPL, as required by or elected under IFRS 9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.3 Revenue recognition (Continued)

3.3.5 Net loss on derecognition of financial assets measured at amortised cost or FVOCI (Fair Value through Other Comprehensive Income).

Net loss on derecognition of financial assets measured at amortised cost includes loss (or income) recognized on sale or derecognition of financial assets measured at amortised costs calculated as the difference between the book value (including impairment) and the proceeds received.

3.3.6 Dividends

Dividend income is recognised when the right to receive income is established.

3.4 Financial instruments – initial recognition

3.4.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to customers when funds are transferred to the customer.

3.4.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described hereunder. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss:

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net trading income. In those cases, where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

3.4.3 Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in note 3.6.1
- Fair value through other comprehensive income (FVOCI), as explained in note 3.6.4 and 3.6.5
- Fair value through profit and loss (FVPL), as explained in note 3.6.7

The Group classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.5 Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

Level 1 financial instruments:	Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Group considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
Level 2 financial instruments:	Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Group will classify the instruments as Level 3.
Level 3 financial instruments:	Those that include one or more unobservable input that is significant to the measurement as whole.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as explained above.

The Group's fair value methodology and the governance over its models includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. All new product initiatives (including their valuation methodologies) are subject to approvals by various functions of the Group.

The Group's fair value methodology and the governance over its models includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. All new product initiatives (including their valuation methodologies) are subject to approvals by various functions of the Group including the risk and finance functions. The responsibility of ongoing measurement resides with the business and product line divisions.

Once submitted, fair value estimates are also reviewed and challenged by the Risk and Finance functions. Fair value estimates are validated by;

- Benchmarking prices against observable market prices or other independent sources
- Re-performing model calculations
- Evaluating and validating input parameters

Model calibrations are evaluated on a quarterly basis or when significant events in the relevant markets occur. When relying on third-party sources (e.g., broker quotes, or other micro or macro-economic inputs), the Risk and Finance functions are also responsible for:

- Verifying and challenging the approved list of providers; and
- Understanding the valuation methodologies and sources of inputs and verifying their suitability for IFRS reporting requirements.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.5. Determination of fair value (continued)

External valuers are involved for valuation of significant assets such as properties.

The Group evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

3.6 Financial assets and liabilities

3.6.1 Financial assets at amortised cost

The Group measures due from banks, loans and advances to customers and other financial investments at amortised cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward. The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVOCI or FVPL.

3.6.2 Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying');

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.6 Financial assets and liabilities (Continued)

3.6.2 Derivatives recorded at fair value through profit or loss (Continued)

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors; and
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit default swaps, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fully collateralised derivatives that are settled net in cash on a regular basis through Central Bank clearing house are only recognised to the extent of the overnight outstanding balance. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied.

Financial assets are classified in their entirety based on the business model and SPPI assessments as outlined in note 3.6.1 above.

3.6.3 Financial assets or financial liabilities measured at Fair value through Profit or Loss

The Group classifies financial assets or financial liabilities measured at Fair value through Profit or Loss when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Financial assets or financial liabilities as held for trading are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are government securities, equities, short positions and customer loans (financial assets at fair value through profit or loss) that have been acquired principally for the purpose of selling or repurchasing in the near term.

3.6.4 Debt instruments at FVOCI

The Group classifies debt instruments at Fair Value through Other Comprehensive Income (FVOCI) when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

3.6.5 Investment Securities measured at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.6 Financial assets and liabilities (Continued)

3.6.6 Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

3.6.7 Financial assets and financial liabilities measured at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using the contractual interest rate as explained in Note 3.3.1.2. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

3.6.8 Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the financial statements (within provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL allowance.

The premium received is recognised in the income statement in net fees and commission income on a straight line basis over the life of the guarantee. Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

The Bank occasionally issues loan commitments at below market interest rates. Such commitments are subsequently measured at the higher of the amount of the ECL allowance (as explained in Notes 3.9 and 5.1) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised as outlined in Note 9.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.7 Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

3.8 Derecognition of financial assets and liabilities

3.8.1 Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit-impaired (POCI).

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Introduction of an equity feature;
- Change in counterparty; and
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

3.8.2 Derecognition other than for substantial modification

3.8.2.1 Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset; or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.8 Derecognition of financial assets and liabilities (Continued)

3.8.2 Derecognition other than for substantial modification (continued)

3.8.2.1 Financial assets (continued)

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset; or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

3.8.2.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.9 Impairment of financial assets

3.9.1 Overview of the Expected Credit Loss (ECL) principles

The Bank records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit losses or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses (12mECL) as outlined in Note 3.9.2.
The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 5.2 under Credit risk management.

The 12mECL is the portion of LTECLs that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 5.2.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This has been explained in Note 5.2.3.5.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.9 Impairment of financial assets (Continued)

3.9.1 Overview of the Expected Credit Loss (ECL) principles (Continued)

The Bank thus groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired (as outlined in Note 5.2.3.) The Bank records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

3.9.2 The calculation of ECL

The Bank calculates ECL based on a probability-weighted scenario to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PD is further explained in Note 5.2.3.2.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 5.2.3.3.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 5.2.3.4

When estimating the ECL, the Bank considers three scenarios (a base case/baseline, an upside or optimistic scenario and a downside or pessimistic scenario). These scenarios were used to create forecasted probabilities of default Optimistic and Pessimistic scenarios were as a result of adjusting the best estimate (Base case) using the standard deviations of the above aforementioned Macroeconomic factors. Management judgement was applied in determining the likelihood of each of the three macroeconomic scenarios using the following weights:

- Base case (baseline) – 85.33% weight
- Upside (optimistic) – 7.33% weight
- Downside (pessimistic) – 7.33% weight

When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.9 Impairment of financial assets (Continued)

3.9.2. The calculation of ECL (continued)

The mechanics of the ECL method are summarised below:

Stage 1:	The 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
Stage 3:	For loans considered credit-impaired. the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
POCI:	POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECL since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.
Loan commitments and letters of credit:	When estimating LTECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECL is calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.
Financial guarantee contracts:	The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECL related to financial guarantee contracts are recognised within other liabilities.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.9 Impairment of financial assets (Continued)

3.9.3 Debt instruments measured at fair value through OCI

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

3.9.4 Purchased or originated credit impaired financial assets (POCI)

For purchased or originated credit-impaired (POCI) financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

3.9.5 Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with sufficient notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over an estimated time frame that reflects its expectations of customer behaviour, the likelihood of default and its future risk mitigation procedures, which could include reducing or cancelling the facilities.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 5.2.3.2, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECL for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently not charged interest.

The calculation of ECL, including the estimation of the expected period of exposure and discount rate is made, on an individual basis. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 5.2.3.6.

3.9.6 Forward looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank formulates three economic scenarios: Baseline, Optimistic, and Pessimistic as explained in Note 3.9.2 above.

The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the International Monetary Fund and selected private-sector and academic forecasters.

Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios to ensure it aligns to changes in the operating environment and best practice. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The macroeconomic indicators embedded in the modelling of the Bank's Probability of Default (PD) are indicated below;

- Interbank rate
- 364-day Treasury bill rate
- Public debt to GDP rate

The selection of these factors was based on elimination upon assessment of a possible broad range of forward looking macroeconomic factors. Through multiple regression modelling and backward elimination, management determined that above factors affected the bank's NPL ratios.

The three scenarios mentioned in note 3.9.2 above were then used to create forecasted probabilities of default. The optimistic and pessimistic scenarios were as a result of adjusting the best estimate (Base case) using the standard deviations of the macroeconomic factors.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.9 Impairment of financial assets (Continued)

3.9.7 Credit enhancements: collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position.

Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Guarantees held are included in the measurement of loan ECLs when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended.

Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL. Credit default swaps are not considered to be integral to a loan's contractual terms and are accounted as derivative financial instruments.

3.9.8 Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

3.9.9 Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. All amounts to be written off are subjected to Board approval upon recommendation by management. Prior to any recommendation for write-off, the Bank's management team will have satisfied themselves that there is no reasonable expectation of recovery by looking at the following possible circumstance deemed indicators of non-recoverability;

- Insolvency: Where the debtor is the subject of bankruptcy, individual voluntary arrangement, liquidation, company voluntary arrangement and administration order or administrative receivership proceedings or has ceased to trade amongst others.
- Where the debt is unenforceable whether through a court order or lapse of the statute of limitations
- Where balances are uneconomical to collect
- Where the debtor is deceased and the estate is unable to repay

If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.9 Impairment of financial assets (Continued)

3.9.10 Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department.

Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 5.2.3.5. The Bank also considers whether the assets should be classified as Stage 3.

Generally, restructuring is a qualitative indicator of default and credit impairment and expectations of restructuring are relevant to assessing whether there is a significant increase in credit risk. Main features of restructure include, extension of tenor by 12 months or longer, unchanged interest rate for most of the facilities, moratorium of capital for 12 months or longer.

Once an asset has been classified as forborne, it will remain forborne for a minimum 6-month probation period. A customer will need to demonstrate consistently good payment behavior over this period of time before the exposure is no longer considered to be in default/credit impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs. Prior to this, all the customer's facilities have to be performing and no contract should be more than 30 days past due.

3.9.11 Modification of loans

Modifications relate to roll-overs and maturity extension not exceeding six months in the normal course of business, without necessarily changing the underlying facility structure and material terms and conditions of the facility. Main features of modifications include rollovers of maturing obligations for 3 to 6 months in normal course of business, moratorium of 3 to 6 months of principal or in some cases both principal and interest for long term loans, loan re-profiling through extension of tenor of 3 to 6 months or in some cases waivers of charges as appropriate on a case by case basis.

3.9.12 Restructured and modified loans

The Group may sometimes renegotiate or otherwise modify contractual cashflows of loans to customers.
When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. Modifications are generally done to address short term cash-flow challenges where the fundamentals of the business remain sound.

a) The following tables refer to restructured and modified financial assets where the restructuring or modification does not result in de-recognition.

	GROUP AND BANK	
	2023	2022
	Restructured	Restructured
	KShs'000	KShs'000
Gross carrying amount before restructuring	8,142,986	3,272,420
Loss allowance before restructuring	(134,364)	(53,997)
Net amortised cost before restructuring	8,008,622	3,218,423
Net restructuring gain	103,745	28,404
Net amortised cost after restructuring	8,112,367	3,246,827

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.9 Impairment of financial assets (Continued)

3.9.12 Restructured and modified loans (Continued)

The Bank has continued to accrue interest on these facilities

As at reporting date, there were no substantial modifications that resulted in derecognition and recognition of new financial assets.

3.11. Foreign currency transactions

The Group's consolidated financial statements are presented in Kenya Shillings, which is also the Group's functional currency. Transactions in foreign currencies are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Differences arising on settlement or translation of monetary items are recognised in profit or loss Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

3.12 Tax

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

3.12.1 Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of reporting period. Current tax relating to items recognised outside profit or loss is recognised outside profit or loss. Current tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity. Detailed disclosures are provided in Note 14.

3.12.2 Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

a) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

a) where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.12 Tax (Continued)

3.12.2 Deferred tax (Continued)

The carrying amount of deferred tax assets is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each end of the reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period. Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

3.12.3 Value Added Tax

Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the Kenya Revenue Authority (KRA), in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables are stated with the amount of value added tax included.

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

3.12.4 Accounting for uncertain positions

The Group uses judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision is based on which approach provides better predictions of the resolution of the uncertainty. The Group assumes that the taxation authority will examine amounts reported to it and will have full knowledge of all relevant information when doing so. Where the Group concludes that it is probable that a particular tax treatment will be accepted, it determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings. If the Group concludes that it is not probable that a particular tax treatment will be accepted, it uses the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The method should be based on which method provides better predictions of the resolution of the uncertainty.

3.13 Property and equipment

Property and equipment is measured at cost and net of accumulated depreciation. Cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use and directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial year in which they are incurred.

Depreciation is calculated on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

Leasehold Land and Buildings	2.5%
Office equipment	12.5%
Computers & copier	25.0%
Motor vehicles	25.0%
Furniture and fittings	12.5%
Computer software	25%

Buildings are measured at cost less accumulated depreciation and impairment losses.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.13 Property and equipment (Continued)

The Group reviews the estimated useful lives, the methods of depreciation and residual values of property and equipment at the end of each reporting period and adjusts them prospectively, if appropriate. During the financial year, no changes to the useful lives and residual values were identified by the directors.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognized

The carrying amount, depreciation and gain on disposal is disclosed in note 22, 12 and 10 respectively.

3.14 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in profit or loss in the year in which the expenditure is incurred.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Software is amortised on a straight line basis and the amortisation expenses are recognised in profit or loss over its estimated useful life, from the date it is available for use. The estimated useful life of software for the current and comparative period is 4 years.

The amortisation method, useful life and the residual value are reviewed at each financial year-end and adjusted, if appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation method or period, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

The carrying amount and amortisation are disclosed in note 23 and 12 respectively.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3.15 Employee benefits

3.15.1 Defined contribution plans

The Group operates a defined contribution pension scheme for its employees, the assets of which are held in a separate trustee administered guaranteed scheme managed by an insurance company.

The pension plan is funded by contributions from the employees and the Group. The Group's contributions are charged to profit or loss in the year to which they relate. The Group has no further payment obligations once the contributions have been paid.

The Group and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The Group’s contributions to the defined contribution schemes are charged to profit or loss in the year to which they relate.

3.15.2 Leave accrual

The monetary value of the unutilised leave by staff as at year end is carried in accruals as a payable and the movement in the year debited/credited to the profit or loss.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.15 Employee benefits (Continued)

3.15.3 Short-term benefits

Short -term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity based benefits and termination benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided;

i) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.
ii) as an expense, unless another IFRS requires or permits the inclusion of the benefits in the cost of an asset.

3.16 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non–restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

3.17 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership-(Note 18). The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities held for trading (financial assets at fair value through profit or loss) in its statement of financial position to financial assets available-for-sale (financial assets at fair value through other comprehensive income) as collateral, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR.

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

3.18 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised in the statement of financial position, unless they are then sold to third parties, in which case, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

3.19 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.19 Leases (Continued)

Group as a lessee

Leases that do not transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

Group as a lessor

Leases where the Group does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. The assumptions made in the determination of lease term for lease contracts with renewal and termination options and for estimating the incremental borrowing rate (IBR) have been highlighted in notes 6.7 and 6.8 respectively.

Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment may be necessary for an entity to obtain the future economic benefits from its other assets.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

a) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, an estimate of costs to be incurred to restore the underlying asset back to its original state; and lease payments made at or before the commencement date less any lease incentives received. Subsequently, Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The Right-of-use assets are presented in Note 24 and are subject to impairment in line with the Bank's policy as described in Note 3.26 and Note 6.9

b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.19 Leases (Continued)

b) Lease liabilities (Continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification that is not accounted for as a separate lease. The lease payments are remeasured when there is a change in the lease term, future lease payments resulting from a change in an index or rate used to determine such lease payments, the amounts expected to be payable under the residual value guarantees or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are outlined in Note 30.

c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor
Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

3.20 Contingent liabilities

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

3.21 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is recognised in profit or loss net of any reimbursement.

3.22 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instrument.

3.23 Fiduciary assets

When the Group acts in a fiduciary capacity such as nominee or agent, assets and income arising thereon with related undertakings to return such assets to customers are excluded from these financial statements. As at 31 December 2023, the Group did not earn any income from the fiduciary assets.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.24 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the year. During the year there were no outstanding shares with dilutive potential.

3.25 Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared and proposed dividends are disclosed as a separate component of equity.

3.26 Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Relevant new and amendments to standards and interpretations on the financial statements effective for the year ended 31 December 2023

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendment became effective for annual periods beginning on or after 1 January 2023.

In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements (the PS), in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures.

The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and,
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the PS also provide examples of situations when generic or standardised information summarising or duplicating the requirements of IFRS may be considered material accounting policy information. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Group.

Amendments to IAS 8 - Definition of Accounting Estimates

The amendment is effective for annual periods beginning on or after 1 January 2023.

The amendment seeks to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. In addition, the amendments clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are intended to provide preparers of financial statements with greater clarity as to the definition of accounting estimates, particularly in terms of the difference between accounting estimates and accounting policies. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Group.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Relevant new and amendments to standards and interpretations on the financial statements effective for the year ended 31 December 2023 (continued)

Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendment is effective for annual periods beginning on or after 1 January 2023.

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

The changes did not have material impact on the financial statements of the Group.

IFRS 17 Insurance Contracts

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

This standard is not applicable to the Group.

International Tax Reform – Pillar Two Model Rules - Amendments to IAS 12

The amendments clarify that IAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organization for Economic Cooperation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as 'Pillar Two legislation' and 'Pillar Two income taxes', respectively.

The amendments require an entity to disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.
An entity is required to separately disclose its current tax expense (income) related to Pillar Two income taxes, in the periods when the legislation is effective.

The amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period.

The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Group.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

Amendments to IAS 1-Classification of Liabilities as Current or Non current and Non-current Liabilities with Covenants

The amendment is effective for annual periods beginning on or after 1 January 2024.

The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.
The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted. The IASB has aligned the effective date with the 2022 amendments to IAS 1. If an entity applies the 2020 amendments for an earlier period, it is also required to apply the 2022 amendments early.

The directors do not expect that the adoption of the amendment will have an impact on the financial statements of the Group.

Amendments to IFRS 16-Lease Liability in a Sale and Leaseback

The amendment is effective for annual periods beginning on or after 1 January 2024.

The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

After the commencement date in a sale and leaseback transaction, the seller-lessee applies paragraphs 29 to 35 of IFRS 16 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 of IFRS 16 to the lease liability arising from the leaseback. In applying paragraphs 36 to 46, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease, as required by paragraph 46(a) of IFRS 16.

The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in Appendix A of IFRS 16. The seller-lessee will need to develop and apply an accounting policy that results in information that is relevant and reliable in accordance with IAS 8.

The directors do not expect that the adoption of the amendment will have an impact on the financial statements of the Group.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures—Supplier Finance Arrangements

The amendment is effective for annual periods beginning on or after 1 January 2024.

The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures—Supplier Finance Arrangements (continued)

The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information.

To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements:

- The terms and conditions of the arrangements
- The carrying amount, and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements
- The carrying amount, and associated line items for which the suppliers have already received payment from the finance providers
- Ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement
- Liquidity risk information

The directors do not expect that the adoption of the amendment will have an impact on the financial statements of the Group.

Amendments to IAS 21 - Lack of Exchangeability

The amendment is effective for annual periods beginning on or after 1 January 2025.

An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.

The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Group.

Amendments to IFRS 10 and IAS 28-Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

b. Early adoption of standards

The Group did not early-adopt any new or revised standards in 2023.

5. FINANCIAL RISK MANAGEMENT

5.1 Introduction and risk profile

The Group's activities expose it to a variety of financial risks. Whilst risk is inherent in the Bank's activities, it is managed through an integrated enterprise risk management framework, including ongoing identification, measurement and monitoring, and subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Bank is exposed to credit risk, liquidity risk, operational risk and market risk, the latter being subdivided into trading and non–trading risks. It is also subject to country risk and various operating and business risks.

5.1.1 Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Through the Board Risk committee, the Board is responsible for monitoring the overall risk process within the Bank. The Board Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies and risk appetite. The Board Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports to the Board.

The Risk Management Department provides the day-to-day oversight on management of risk and promotes the risk culture across the Bank. It is responsible for creating and maintaining the risk practices across the Bank and to ensure that controls are in place for all risk categories. The department ensures that exceptions are duly reported to both the management and board Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

The Bank's Treasury is responsible for managing its assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank. The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with them. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board through the Board Audit Committee.

5.1.2 Risk mitigation and risk culture

It is the Bank's policy to ensure that a robust risk awareness is embedded in its organizational risk culture. Employees are expected to take ownership and be accountable for the risks the Bank is exposed to that they decide to take on. The Bank's continuous training and development emphasizes that employees are made aware of the Bank's risk appetite and they are supported in their roles and responsibilities to monitor and keep their exposure to risk within the Bank's risk appetite limits. Compliance breaches and internal audit findings are important elements of employees' annual ratings and remuneration reviews. Policies related to specific types of risk or activities are used to manage risk exposures. Recommendations of risk management, internal audit, business units and senior executive management, industry best practices and regulatory requirements are factored into the policies. Risk appetite limits and tolerances are set as a prudent approach to manage risks. Limit setting establishes accountability for key activities within the risk-taking activities and establishes the conditions under which transactions may be approved or executed. The Board approves all the policies which have clear accountability and ownership and the management is responsible and accountable for the effective implementation and monitoring of risk appetite.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.1.2 Risk mitigation and risk culture (Continued)

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

5.1.3 Risk measurement and reporting systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all of the businesses is processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the Board Risk Committee, and the Bank's senior management. The report includes aggregate credit exposure, operational risk, market risk, liquidity ratios and risk profile changes.

5.1.4 Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

5.2 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the credit risk and debt recovery sections of the Bank's independent Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties and follow up on all delinquent accounts. Additionally, the Bank has a dedicated legal team tasked with dealing with all debt recovery issues for decision making and guidance. Monthly and quarterly progress reports are made to the Bank management and the Board.

The Bank has established a credit risk quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

5.2.1 Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. In the case of credit derivatives, the Bank is also exposed to, or protected from, the risk of default of the underlying entity referenced by the derivative.

With gross–settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honors its obligation, but the counterparty fails to deliver the counter value.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Credit risk (continued)

5.2.2 Credit–related commitments risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

5.2.3 Impairment assessment

5.2.3.1 Definition of default, impaired and cure

The Bank considers a financial instrument defaulted for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

The Bank has aligned its definition of credit impaired assets under IFRS 9 to the Central Bank of Kenya definition of Non-Performing Loans (NPL).

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

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

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The Bank applies the considerations of the Central Bank prudential guidelines to determine whether a financial asset should be upgraded from Stage 3 to Stage 2 and then Stage 1.

Where an account in Stage 3 is regularised (i.e. all past due principal and interest is repaid in full) it may be upgraded to Stage 2. A facility which meets the above condition and has been classified as Stage 2 may be reclassified to Stage 1 if a sustained record of performance is maintained for a period of six months.

5.2.3.2 The Bank's internal rating and PD estimation process

The Bank's Credit Department operates its internal credit rating models. The Bank runs separate models for its key portfolios in which its customers are rated from 1 to 5 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behavior. Historical rating transition matrix for the bank was based on a 48-month period running from January 2019 to December 2023 to estimate default history for the loans and advances. To ensure that the Probability of Defaults (PDs) were estimated accurately, a calibration was done with the central tendency of default for the bank's portfolios over a period of 4 years.

PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Credit risk (continued)

5.2.3 Impairment assessment (Continued)

5.2.3.2 The Bank's internal rating and PD estimation process (Continued)

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit department analyses publicly available information such as financial information and other external data and assigns the internal rating.

Corporate and small business lending

For corporate and investment banking loans, the credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.

- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer.

Retail lending and mortgages

Retail lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending ratings are primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

The Bank's internal credit rating grades

Internal rating grade	Internal rating/risk description
Performing	
Grade 1	Normal risk
Grade 2	Watch risk
Non-performing	
Grade 3	Substandard risk
Grade 4	Doubtful risk
Grade 5	Loss

For purposes of matching the Bank's internal risk grading and IFRS 9, Grade 1 loans can be equated to Stage 1, Grade 2 to Stage 2 and Grades 3, 4 and 5 to Stage 3.

The Bank manages, limits and controls concentrations of credit risk wherever they are identified. The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subjected to quarterly or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved as and when required by the management credit committee.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Credit risk (Continued)

5.2.3 Impairment assessment (Continued)

5.2.3.3 Exposure at default (EAD)

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 3.9.5.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

5.2.3.4 Loss given default (LGD)

LGDs for secured facilities were modelled at facility level. The collateral values used were based on the forced sale value. The FSV for both motor vehicles and property was based on the valuation report and is estimated to be between 70% - 80% of the market value. A further haircut was applied on specific property based on current information on foreclosure of the specific property. In the event that a customer had multiple facilities, collateral value was apportioned proportionately based on the on the outstanding exposures.

The collaterals were discounted for the following period to consider the time value of money (i.e. time taken to realise the sale/foreclosure of collateral);

- Property land and Buildings – 2 years
- Motor vehicle – 1 year
- Machinery – 1 year
- Debentures- 1 year
- Cash – not discounted

Where a customer had no identifiable collateral, collections history on NPLs that was modelled at portfolio level (see note 5.2.3.6) was used in the computation of the LGD.

5.2.3.5 Significant increase in credit risk

The Bank in determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition considered reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's limited experience coupled with expert credit assessment and forward-looking information.

The Bank identifies a significant increase in credit risk where;

- exposures have a regulatory risk rating of 'watch';
- an exposure is greater than 30 days past due – this is in line with the IFRS 9 "30 Days past Due (DPD) rebuttable presumption";
- an exposure has been restructured in the past due to credit risk related factors or which was NPL and is now regular (subject to the regulatory cooling off period); or
- by comparing an exposure's:
    - credit risk quality at the date of reporting; with
    - the credit risk quality on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Credit risk (Continued)

5.2.3 Impairment assessment (Continued)

5.2.3.6 Grouping financial assets measured on a collective basis

As explained in Note 3.9.1 dependent on the factors below, the Bank calculates the LGD and PD to be applied on either a collective or an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- All Stage 1 and 2 assets that are collateralized, regardless of the class of financial assets
- All stage 3 assets regardless of the class of financial assets The treasury, trading and interbank relationships (such as Due from Banks, Cash collateral on securities borrowed and reverse repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring

LGD and PD is calculated on a collective basis upon classification and grouping of the Bank's financial assets into industry sectors based on the Central Bank of Kenya's industry sector classifications as listed below;

- Trade
- Transport and Communication
- Personal/Household
- Manufacturing
- Financial Services
- Real Estate
- Tourism, Restaurants & Hotels
- Building and Construction
- Agriculture
- Energy and Water
- Mining and Quarrying

5.2.3.7 Inputs to the ECL model

An overview of the approach to estimating the allowance for ECL is set out in Note 3.9 and in Note 6.1. The macro sensitive PD model developed by the Bank for the ECL computation for credit exposures to the different industry segments was determined using a transition matrix, by modelling the movements of loans from one classification (Stage) to another classification as expounded on in note 5.2.3.2, note 5.2.3.4 and note 5.2.3.6 above, involves the use of the respective weighted average Default Rates derived from regression analysis of Bank data for the last three years as modified by economic variations. For each of the Bank's segments, a PD was computed based on the transition matrix modelled and a macroeconomic overlay done on the historical PDs to arrive at forecasted PDs. Local macroeconomic factors obtained from the Central Bank of Kenya and Kenya National Bureau of Statistics amongst others were used to determine the factors that best affected the quality of the Bank's books. As highlighted in Note 3.9.6 were arrived at based on multiple regression modelling and backward elimination on the Bank's historical data.

5.2.3.8 Overview of modified and forborne loans

From a risk management point of view, once an asset is forborne or modified, the Bank's special department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognised. Details of accounting policies for forbearance are disclosed in Note 3.9.10.

5.2.3.9 Analysis of risk concentration

The Bank's concentrations of risk are managed by client/counterparty industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2023 was KShs. 2.6 billion (2022: KShs. 2 billion).

Disclosure of credit quality and the maximum exposure for credit risk per categories based on the Bank's internal credit rating system and year-end stage classification are further disclosed in Note 17.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Credit risk (Continued)

5.2.3 Impairment assessment (Continued)

5.2.3.10 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. Assumptions used in the measuring of certain types of collateral has been highlighted in note 5.2.3.4.

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For corporate and small business lending, charges over real estate properties, inventory and trade receivables.
- Motor vehicles, aeroplanes and machinery subject to discounting of the FSVs in assessing collectability.
- For retail lending, mortgages over residential properties

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. In its normal course of business, the Bank engages external agents to recover funds from repossessed properties or other assets in its retail portfolio, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet and not treated as non–current assets held for sale.

For its derivative portfolio, the Bank also makes use of master netting agreements and other arrangements not eligible for netting under IAS 32 Financial Instruments: Presentation with its counterparties. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract.

Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit risk is eliminated only to the extent of amounts due to the same counterparty.

It is the Bank's policy to maximise the use of the services of the Central Bank of Kenya Clearing House, in which case, balances are derecognised as explained in Note 3.8.

Disclosure of credit quality and the maximum exposure for credit risk per categories based on the Bank's internal credit rating system and year-end stage classification are further disclosed in Note 17.

The amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements is as follows:

5. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Credit risk (Continued)

GROUP	Up to 1 month	1 - 3 months	4 - 12 months	1 – 5 years	Over 5 years	Total
At 31 December 2023	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Assets						
Balances with Central Bank of Kenya	1,958,532	-	-	-	-	1,958,532
Government securities	1,161,926	-	319,758	10,304,987	23,455,730	35,242,401
Investment securities	2,841	-	-	-	-	2,841
Placements and balances with other banking institutions	4,313,976	316,821	-	-	-	4,630,797
Other assets	1,007,713	-	-	-	-	1,007,713
Off balance sheet exposures*	7,730,975	3,076,049	7,586,494	990,926	93,586	19,478,030
Loans and advances to customers	8,193,250	3,512,198	4,247,494	15,857,545	13,779,814	45,590,301
Financial assets at fair value through profit or loss	-	-	-	742,837	-	742,837
	24,369,213	6,905,068	12,153,746	27,896,295	37,329,130	108,653,452
At 31 December 2022						
Assets						
Balances with Central Bank of Kenya	1,530,528	-	-	-		1,530,528
Government securities	-	-	765,097	8,403,044	26,190,988	35,359,129
Investment securities	1,614	-	-	-	-	1,614
Placements and balances with other banking institutions	236,286	61,715	-	-	-	298,001
Other assets	320,022	-	-	-	-	320,022
Off balance sheet exposures *	6,888,754	2,050,565	6,176,053	761,990	95,886	15,973,248
Loans and advances to customers	6,005,891	2,579,723	3,587,322	12,968,522	13,274,782	38,416,240
Financial assets at fair value through profit and loss	-	-	-	386,317	-	386,317
	14,983,095	4,692,003	10,528,472	22,519,873	39,561,656	92,285,099

* These include letters of credit, guarantees, forwards and swaps (Note 32b).

5. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Credit risk (Continued)

BANK

At 31 December 2023	Up to 1 month KShs '000	1 - 3 months KShs '000	4 - 12 months KShs '000	1 – 5 years KShs '000	Over 5 years KShs '000	Total KShs '000
Assets						
Balances with Central Bank of Kenya	1,958,532	-	-	-	-	1,958,532
Government securities	1,161,926	-	319,758	10,304,987	23,455,730	35,242,401
Investment securities	2,801	-	-	-	-	2,801
Placements and balances with other banking institutions	4,313,976	316,821	-	-	-	4,630,797
Other assets	1,007,713	-	-	-	-	1,007,713
Off statement of financial position*	7,730,975	3,076,049	7,586,494	990,926	93,586	19,478,030
Loans and advances to customers	8,193,250	3,512,198	4,247,494	15,857,545	13,779,814	45,590,301
Financial assets at fair value through profit or loss	-	-	-	742,837	-	742,837
	24,369,173	6,905,068	12,153,746	27,896,295	37,329,130	108,653,412

At 31 December 2022	Up to 1 month KShs '000	1 - 3 months KShs '000	4 - 12 months KShs '000	1 – 5 years KShs '000	Over 5 years KShs '000	Total KShs '000
Assets						
Balances with Central Bank of Kenya	1,530,528	-	-	-	-	1,530,528
Government securities	-	-	765,097	8,403,044	26,190,988	35,359,129
Investment securities	1,574	-	-	-	-	1,574
Placements and balances with other banking institutions	236,286	61,715	-	-	-	298,001
Other assets	320,022	-	-	-	-	320,022
Off statement of financial position*	6,888,754	2,050,565	6,176,053	761,990	95,886	15,973,248
Loans and advances to customers	6,005,891	2,579,723	3,587,322	12,968,522	13,274,782	38,416,240
Financial assets at fair value through profit or loss	-	-	-	386,317	-	386,317
	14,983,055	4,692,003	10,528,472	22,519,873	39,561,656	92,285,059

* These include letters of credit, guarantees, forwards, swaps and options (Note 32b)

5. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Credit Risk (Continued)

Group and Bank

Analysis of loans and advances to customers by portfolio and industry segment

2023	Gross carrying amount				Total ECL			
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Industry	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Agriculture	230,567	21	258,608	489,196	682	1	154,190	154,873
Building and construction	3,327,521	62,303	620,531	4,010,355	8,734	506	307,452	316,692
Energy and water	3,738,127	-	8	3,738,135	62	-	8	70
Financial services	1,012,657	49,727	225,361	1,287,745	1,399	2,586	129,473	133,458
Manufacturing	8,215,993	10,442	2,655,063	10,881,498	14,618	190	961,878	976,686
Mining and quarrying	545,745	23,993	14	569,752	-	-	14	14
Personal and household	5,689,244	454,740	2,209,703	8,353,687	35,827	58,873	1,535,267	1,629,967
Real estate	4,903,635	999,935	1,462,638	7,366,208	5,198	1,485	502,417	509,100
Tourism, restaurants and hotels	372,490	2,567,755	870,792	3,811,037	4	1,667	310,675	312,346
Trade	3,583,253	883,272	3,735,191	8,201,716	4,365	3,089	1,412,791	1,420,245
Transport and communication	1,295,041	47,802	2,052,710	3,395,553	32,215	2,318	1,026,597	1,061,130
Grand total	32,914,273	5,099,990	14,090,619	52,104,882	103,104	70,715	6,340,762	6,514,581
2022								
Agriculture	266,928	32	226,311	493,271	3,116	3	165,461	168,580
Building and construction	2,009,442	35,407	479,882	2,524,731	12,339	1,102	296,963	310,404
Energy and water	2,353,314	3	9	2,353,326	1,582	-	8	1,590
Financial services	720,541	17,457	221,266	959,264	1,291	20	135,033	136,344
Manufacturing	6,852,927	17,800	2,365,876	9,236,603	49,118	57	822,708	871,883
Mining and quarrying	84,914	11	-	84,925	-	-	-	-
Personal and household	5,187,671	503,050	1,830,206	7,520,927	99,313	17,602	1,253,203	1,370,118
Real estate	4,975,405	110,168	1,746,464	6,832,037	7,354	248	821,483	829,085
Tourism, restaurants and hotels	3,542,223	28,979	517,027	4,088,229	347	15	182,424	182,786
Trade	3,088,086	765,121	3,332,496	7,185,6703	10,687	26,327	1,243,180	1,280,194
Transport and communication	994,539	373,273	1,782,623	3,150,435	25,935	56	836,236	862,227
Grand total	30,075,990	1,851,301	12,502,160	44,429,451	211,082	45,430	5,756,699	6,013,211

5. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Credit Risk (Continued)

Group and Bank

Analysis of credit risk mitigation and collateral
KShs'000

2023	Maximum exposure to credit risk	Cash	Property	Total Collateral	Net exposure	% of exposure subject to collateral requirement	Associated ECL
Balances with CBK	1,958,532	-	-	-	1,958,532	100.0%	-
Due from Banks	4,630,797	-	-	-	4,630,797	100.0%	112
Loans and advances to customers:							
Corporate	32,656,463	1,381,949	56,012,827	57,394,776	(24,738,313)	175.8%	1,856,844
Retail	9,718,072	1,721,615	6,945,205	8,666,820	1,051,252	89.2%	1,803,210
SME	9,730,347	1,022,009	14,489,765	15,511,774	(5,781,427)	159.4%	2,854,527
Total loans and advances	52,104,882	4,125,573	77,447,797	81,573,370	(29,468,488)	-	6,514,581
Total maximum exposure	58,694,211	4,125,573	77,447,797	81,573,370	(22,879,159)		6,514,693
Debt instruments at amortized cost	31,185,645	-	-	-	31,185,645	-	4,627
Total financial instruments at amortized cost	89,879,856	4,125,573	77,447,797	81,573,370	8,306,486	-	6,519,320
Debt instruments at fair value at through OCI							
Total debt instruments at fair value at through OCI	4,061,967	-	-	-	4,061,967	-	585
	4,061,967	-	-		4,061,967	-	585
	93,941,823	4,125,573	77,447,797	81,573,370	12,368,453	-	6,519,905
Financial Guarantees	2,992,340	1,750,482	-	1,750,482	1,241,858	58.5%	4,703
Letters of credit for customers	2,865,010	424,000	-	424,000	2,441,010	14.8%	1,522
Other commitments	13,620,680	-	-	-	13,620,680	-	-
	19,478,030	2,174,482	-	2,174,482	17,303,548	-	6,225
	113,419,853	6,300,055	77,447,797	83,747,852	29,672,001	-	6,526,130

5. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Credit Risk (Continued)

Group and Bank

Analysis of credit risk mitigation and collateral (continued)

KShs'000

2022	Maximum exposure to credit risk	Cash	Property	Total Collateral	Net exposure	% of exposure subject to collateral requirement	Associated ECL
Balances with CBK	1,530,528	-	-	-	2,833,798	100.0%	-
Due from Banks	298,001	-	-	-	298,001	100.0%	-
Loans and advances to customers:							
Corporate	27,032,489	1,617,940	35,352,813	36,970,753	(9,938,264)	73.1%	1,879,265
Retail	8,393,268	526,323	5,569,325	6,095,648	2,297,620	137.7%%	1,536,031
SME	9,003,694	800,347	12,609,805	13,410,152	(4,406,458)	67.14%%	2,597,915
Total loans and advances	44,429,451	2,944,610	53,531,943	56,476,553	(12,047,102)	-	6,013,211
Total maximum exposure	46,257,980	2,944,610	53,531,943	56,476,553	(10,218,573)	-	6,013,211
Debt instruments at amortized cost	20,986,908	-	-	-	20,986,908	-	6,943
Total financial instruments at amortized cost	67,244,888	2,944,610	53,531,943	56,476,553	10,768,335	-	6,020,154
Debt instruments at fair value at through OCI	14,372,221	-	-	-	14,372,221	-	1,508
	81,617,109	2,944,610	53,531,943	56,476,553	25,140,556	-	6,021,662
Financial Guarantees	1,975,446	36,336	-	36,336	1,939,110	1.8%	3,502
Letters of credit for customers	1,671,856	3,035	-	3,035	1,668,821	0.2%	3,150
Other commitments	12,325,946	-			12,325,946	-	-
	15,973,248	39,371	-	39,371	15,933,877	-	6,652
	97,590,357	2,983,981	53,531,943	56,515,924	41,074,433	-	6,028,314

5. FINANCIAL RISK MANAGEMENT (Continued)

5.3 Liquidity risk and funding management

Liquidity risk is defined as the risk that the Bank does not have sufficient liquid financial resources to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. The ALCO is responsible for managing the Bank's liquidity risk through comprehensive policies, governance and review procedures, stress testing, monitoring of limit sets to ensure these are in line with the overall liquidity risk appetite and strategy of the Bank. The treasury department of the bank is responsible for working with other departments within the Bank to ensure the liquidity risk strategy is executed. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding, if required.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers with the minimum ratio required by the regulator being 20%. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt 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 Bank maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Bank also has lines of credit that it can access to meet liquidity needs.

5.3.1 Liquidity ratios

Liquidity ratios during the year were as follows:

Net liquid assets/short term liabilities (%)	2023	2022
Year-end	36%	32%
Maximum	36%	60%
Minimum	27%	30%
Average	32%	47%
	======	=====

5.3.2 Stress Testing

In accordance with the Bank's policy, the liquidity position is assessed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. Additionally, stress testing is performed for a combination of both the market and specific stress factors relating to the Bank. Liquidity mismatch reporting and stress testing results are reported regularly and reviewed by the Risk Management Committee and periodically reviewed by the Asset and Liability Committee (ALCO), Executive Committee and Board Risk Committee.

5.3.3 Analysis of financial assets and liabilities by remaining contractual maturities

The Bank stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of core customer current accounts and savings accounts, together with term funding with a remaining term to maturity in excess of one year. Loans to customers that are part of reverse repurchase arrangements, and where the Bank receives securities which are deemed to be liquid, are excluded from the advances to deposits ratio.

The table below summarizes the maturity profile of the Bank's financial assets and the undiscounted cash flows of its financial liabilities as at 31 December. Trading derivatives are shown at fair value in a separate column. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted payment obligations. Gross settled, non-trading derivatives are shown separately, by contractual maturity at the foot of the note. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.3.3 Analysis of financial assets and liabilities by remaining contractual maturities (Continued)

GROUP
At 31 December 2023

	Upto 1 month KShs '000	1 - 3 months KShs '000	4 - 12 Months KShs '000	1 - 5 Years KShs '000	Over 5 years KShs '000	Total KShs '000
Assets						
Balances with Central Bank of Kenya	1,958,533	-	-	-	-	1,958,533
Government and other investment securities	1,498,163	626,216	3,211,249	22,095,189	30,158,370	57,589,187
Placements and balances with other banking institutions	4,313,976	316,821	-	-	-	4,630,797
Other assets	1,007,713	-	-	-	-	1,007,713
Loans and advances to customers	8,626,894	4,278,205	7,355,536	27,540,213	19,590,920	67,391,768
Financial assets at fair value through profit or loss	-	-	-	742,837	-	742,837
Total assets	17,405,279	5,221,242	10,566,785	50,378,239	49,749,290	133,320,835
Liabilities						
Deposits and balances from other banks	651,462	-	-	-	-	651,462
Customer deposits	33,275,314	15,121,356	15,454,425	390,560	-	64,241,655
Due to Central Bank of Kenya	18,496,768	800,000	400,000	-	-	19,696,768
Financial liabilities at fair value through profit or loss	-	-	-	742,837	-	742,837
Other liabilities	234,948	-	-	-	-	234,948
Lease liabilities	-	36,509	211,505	562,298	44,208	854,520
Total liabilities	52,658,492	15,957,865	16,065,930	1,695,695	44,208	86,422,190
Net liquidity gap	(35,253,213)	(10,736,623)	(5,499,145)	48,682,544	49,705,082	46,898,645

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is considered to be of a stable and long term nature.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.3.3 Analysis of financial assets and liabilities by remaining contractual maturities (Continued)

GROUP

At 31 December 2022

	Upto 1 month KShs '000	01-Mar months KShs '000	04-Dec Months KShs '000	01-May Years KShs '000	Over 5 years KShs '000	Total KShs '000
Assets						
Balances with Central Bank of Kenya	1,530,528	-	-	-	-	1,530,528
Government and other investment securities	348,410	663,103	3,814,642	22,993,594	38,521,533	66,341,282
Placements and balances with other banking institutions	236,286	61,715	-	-	-	298,001
Other assets	786,143	-	-	-	-	786,143
Loans and advances to customers	6,310,018	3,117,984	5,849,457	22,053,498	16,784,516	54,115,473
Financial assets at fair value through profit or loss	-	-	-	386,317	-	386,317
Total assets	9,211,385	3,842,802	9,664,099	45,433,409	55,306,049	123,457,744
Liabilities						
Deposits and balances from other banks	7,907,365	-	-	-	-	7,907,365
Customer deposits	25,241,570	11,335,449	13,380,490	129,806	-	50,087,315
Due to Central Bank of Kenya	8,776,682	-	-	5,807,246	-	14,583,928
Financial liabilities at fair value through profit or loss	-	-	-	386,317	-	386,317
Other liabilities	917,866	-	-	-	-	917,866
Lease liabilities	-	-	103,636	695,579	9,438	808,653
Total liabilities	42,843,483	11,335,449	13,484,126	7,018,948	9,438	74,691,444
Net liquidity gap	(33,632,098)	(7,492,647)	(3,820,027)	38,414,461	55,296,611	48,766,300

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is considered to be of a stable and long term nature.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.3.3 Analysis of financial assets and liabilities by remaining contractual maturities (Continued)

BANK
At 31 December 2023

	Upto 1 month KShs '000	1 - 3 months KShs '000	4 - 12 Months KShs '000	1 - 5 Years KShs '000	Over 5 years KShs '000	Total KShs '000
Assets						
Balances with Central Bank of Kenya	1,958,533	-	-	-	-	1,958,533
Government and other investment securities	1,498,163	626,216	3,211,249	22,095,189	30,158,370	57,589,187
Placements and balances with other banking	4,313,976	316,821	-	-	-	4,630,797
Other assets	1,007,713	-	-	-	-	1,007,713
Loans and advances to customers	8,626,894	4,278,205	7,355,536	27,540,213	19,590,920	67,391,768
Financial assets at fair value through profit or loss	-	-	-	742,837	-	742,837
Total assets	17,405,279	5,221,242	10,566,785	50,378,239	49,749,290	133,320,835
Liabilities						
Deposits and balances from other banks	651,462	-	-	-	-	651,462
Customer deposits	33,287,589	15,121,356	15,454,425	390,560	-	64,253,930
Due to Central Bank of Kenya	18,496,768	800,000	400,000	-	-	19,696,768
Financial liabilities at fair value through profit or	-	-	-	742,837	-	742,837
Other liabilities	214,787	-	-		-	214,787
Lease liabilities	-	36,509	211,505	562,298	44,208	854,520
Total liabilities	52,650,606	15,957,865	16,065,930	1,695,695	44,208	86,414,304
Net liquidity gap	(35,245,327))	(10,736,623)	(5.499,145)	48,682,544	49,705,082	46,906,531

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is considered to be of a stable and long term nature.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.3.3 Analysis of financial assets and liabilities by remaining contractual maturities (Continued)

BANK

At 31 December 2022

	Upto 1 month KShs '000	1 - 3 months KShs '000	4 - 12 Months KShs '000	1 - 5 Years KShs '000	Over 5 years KShs '000	Total KShs '000
Assets						
Balances with Central Bank of Kenya	1,530,528	-	-	-	-	1,530,528
Government and other investment securities	348,409	663,103	3,814,642	22,993,594	38,521,533	66,341,281
Placements and balances with other banking institutions	236,286	61,715	-	-	-	298,001
Other assets	786,143	-	-	-	-	786,143
Loans and advances to customers	6,310,018	3,117,984	5,849,457	22,053,498	16,784,516	54,115,473
Financial assets at fair value through profit or loss	-	-	-	386,317	-	386,317
Total assets	9,211,384	3,842,802	9,664,099	45,433,409	55,306,049	123,457,743
Liabilities						
Deposits and balances from other banks	7,907,365	-	-	-	-	7,907,365
Customer deposits	25,255,803	11,335,449	13,380,490	129,806	-	50,101,548
Due to Central Bank of Kenya	8,776,682	-	-	5,807,246	-	14,583,928
Financial liabilities at fair value through profit or loss	-	-	-	386,317	-	386,317
Other liabilities	908,923	-	-	-	-	908,923
Lease liabilities	-	-	103,636	695,579	9,438	808,653
Total liabilities	42,848,773	11,335,449	13,484,126	7,018,948	9,438	74,696,734
Net liquidity gap	(33,637,389)	(7,492,647)	(3,820,027)	38,414,461	55,296,611	48,761,009

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is considered to be of a stable and long term nature.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.4 Market risk

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

The Bank classifies exposures to market risk into either trading (the Trading book) or non–trading (the Banking book) portfolios and manages each of those portfolios separately.

The market risk for the trading book is managed and monitored using value at risk (VaR), that reflects the interdependency between risk variables as set out in note 5.4.1 below.

The Bank's risk management strategy for its Banking book is different for each of the following categories of market risk and is set out in the subsequent subsections of these financial statements, as follows:

- Interest rate risk
- Currency risk

Market risk limits are set and continuously reviewed by the market risk department of the Bank's independent Risk Controlling Unit. As a part of their established market risk management process, the market risk department also monitors early signs of possible changes in market conditions such as: anticipated and actual changes to interest rates; socio-economic factors driving mortgage prepayment behaviors; and economic and geopolitical factors driving currency and equity price movements. Market risk limits are ultimately approved by the Board.

The Bank's Asset and Liability Committee (ALCO) is tasked with the overall management of market risk. At an operational level, market risk is primarily managed by the Bank's treasury department, which is responsible for ensuring that the Bank's exposures are in compliance with market risk limits approved by the Board and to take adequate actions subject to review and approval by ALCO.

The Bank's risk management strategies in relation to market risks are explained under the corresponding subheadings on the following pages.

5.4.1 Market risk — trading (trading book) (including financial assets and financial liabilities designated at fair value through profit or loss)

Objectives and limitations of the VaR (Value at Risk) methodology

The Bank uses simulation models to assess possible changes in the market value of the trading portfolio based on historical data. The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The distribution is calculated by using exponentially weighted historical data. Due to the fact that VaR relies heavily on historical data to provide information and does not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under– or over–estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

In practice, the actual trading results will differ from the VaR calculation. In particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.4 Market risk (Continued)

5.4.1 Market risk — trading (trading book) (including financial assets and financial liabilities designated at fair value through profit or loss) (continued)

VaR assumptions

The VaR that the Bank measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one-day horizon, losses exceeding the VaR figure should occur, on average under normal market conditions, not more than once every hundred days.

Since VaR is an integral part of the Bank's market risk management, VaR limits have been established for all trading operations and exposures are required to be reviewed daily against the limits by management.

Back testing

It is the Bank's policy to perform regular back–testing to validate the Bank's VaR calculations. When back–testing, the Bank compares daily profits and losses with the estimates derived from the Bank's VaR model.

5.4.2 Market risk – Banking book

The Bank's primary business model is to collect deposits, and use these funds to provide loans and other funding products and debt instruments to its customers. Interest rate risk is the impact that changes in interest rates could have on the Bank's margins, profit or loss, and equity. Interest risk arises from the mismatch of interest payable on the Bank's liabilities and the interest earned on its assets.

The Bank's asset-liability profile of its banking book is such that:

- Interest on deposits is primarily either floating or their maturities are so short term that their behavior is similar to floating rate instruments
- Interest rates payable on issued debt are primarily fixed
- The Bank's loan portfolio is a mixture of fixed and floating rates instruments

As a part of the Bank's risk management strategy, the Board has established limits on the non–trading interest rate gaps for the interest rate sensitivities. These limits are consistent with the Bank's enterprise risk appetite and the Bank aligns its hedge accounting objectives to keep exposures within those limits.

5.4.2.1 Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. Management closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes.

The following table provides an analysis of the Bank's interest rate risk exposure on non–trading financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.4 Market risk (Continued)

5.4.2.1 Interest rate risk (continued)

GROUP

As at 31 December 2023	Upto 1 month KShs '000	1 – 3 Months KShs '000	4 – 12 Months KShs '000	1 – 5 Years KShs '000	Over 5 years KShs '000	Non-interest bearing KShs '000	Total KShs '000
Assets							
Balances with Central Bank of Kenya	-	-	-	-	-	1,958,533	1,958,533
Government and investment securities	1,161,926	-	319,758	10,304,987	23,455,730	-	35,242,401
Placements and balances with other banking institutions	1,727,742	316,821	-	-	-	2,586,234	4,630,797
Other assets	-	-	-	-	-	658,636	658,636
Loans and advances to customers	8,193,250	3,512,198	4,247,494	15,857,545	13,779,814	-	45,590,301
Financial assets at fair value through profit or loss	-	-	-	-	-	742,837	742,837
Total assets	11,082,918	3,829,019	4,567,252	26,162,532	37,235,544	5,946,240	88,823,505
Liabilities							
Deposits and balances from other banks	651,462	-	-	-	-	-	651,462
Customer deposits	17,688,356	14,771,109	14,961,870	385,492	-	15,297,964	63,104,791
Due to Central Bank of Kenya	17,226,768	-	-	-	-	2,470,000	19,696,768
Lease liabilities	-	36,509	211,505	562,298	44,208	-	854,520
Financial liabilities at fair value through profit or loss	-	-	-	-	-	742,837	742,837
Other liabilities	-	-	-	-	-	1,089,468	1,089,468
Total liabilities	35,566,586	14,807,618	15,173,375	947,790	44,208	19,600,269	86,139,846
On statement of financial position interest sensitivity gap	(24,483,668)	(10,978,599)	(10,606,123)	25,214,742	37,191,336	(13,654,029)	2,683,659

5. FINANCIAL RISK MANAGEMENT (Continued)

5.4 Market risk (Continued)

5.4.2.1 Interest rate risk (continued)

As at 31 December 2022

	Upto 1 month KShs '000	1 – 3 Months KShs '000	4 – 12 Months KShs '000	1 – 5 Years KShs '000	Over 5 years KShs '000	Non-interest bearing KShs '000	Total KShs '000
Assets							
Balances with Central Bank of Kenya	-	-	-	-	-	1,530,528	1,530,528
Government and investment securities	-	-	765,097	8,403,045	26,190,987	-	35,359,129
Placements and balances with other banking institutions	236,286	61,715	-	-	-	-	298,001
Other assets	-	-	-	-	-	320,864	320,864
Loans and advances to customers	6,005,891	2,579,723	3,587,322	12,968,522	13,274,782	-	38,416,240
Financial assets at fair value through profit or loss	-	-	-	386,317	-	-	386,317
Total assets	6,242,177	2,641,438	4,352,419	21,757,884	39,465,769	1,851,392	76,311,079
Liabilities							
Deposits and balances from other banks	7,907,365	-	-	-	-	-	7,907,365
Customer deposits	13,949,598	11,086,398	13,028,564	126,380	-	11,100,640	49,291,580
Due to Central Bank of Kenya	8,776,682	-	-	5,807,246	-	-	14,583,928
Lease liabilities	-	3,122	83,909	702,746	9,438	-	799,215
Financial liabilities at fair value through profit or loss	-	-	-	-	-	386,317	386,317
Other liabilities	-	-	-	-	-	931,032	931,032
Total liabilities	30,633,645	11,089,520	13,112,473	6,636,372	9,438	12,417,989	73,899,437
On statement of financial position interest sensitivity gap	(24,391,468)	(8,448,082)	(8,760,054)	15,121,512	39,456,331	(10,566,597)	2,411,642

5. FINANCIAL RISK MANAGEMENT (Continued)

5.4 Market risk (Continued)

5.4.2.1 Interest rate risk (continued)

BANK

As at 31 December 2023

	Upto 1 month KShs '000	1 – 3 Months KShs '000	4 – 12 Months KShs '000	1 – 5 Years KShs '000	Over 5 years KShs '000	Non-interest bearing KShs '000	Total KShs '000
Assets							
Balances with Central Bank of Kenya	-	-	-	-	-	1,958,533	1,958,533
Government and investment securities	1,161,926	-	319,758	10,304,987	23,455,730	-	35,242,401
Placements and balances with other banking institutions	1,727,742	316,821	-	-	-	2,586,234	4,630,797
Other assets	-	-	-	-	-	658,636	658,636
Loans and advances to customers	8,193,250	3,512,198	4,247,494	15,857,545	13,779,814	-	45,590,301
Financial assets at fair value through profit or loss	-	-	-	-	-	742,837	742,837
Total assets	11,082,918	3,829,019	4,567,252	26,162,532	37,235,544	5,946,240	88,823,505
Liabilities							
Deposits and balances from other banks	651,462	-	-	-	-	-	651,462
Customer deposits	17,700,632	14,771,109	14,961,870	385,492	-	15,297,964	63,117,067
Due to Central Bank of Kenya	17,226,768	-	-	-	-	2,470,000	19,696,768
Lease liabilities	-	36,509	211,505	562,298	44,208	-	854,520
Financial liabilities at fair value through profit or loss	-	-	-	-	-	742,837	742,837
Other liabilities	-	-	-	-	-	854,520	854,520
Total liabilities	35,578,862	14,807,618	15,173,375	947,790	44,208	19,365,321	85,917,174
On statement of financial position interest sensitivity gap	(24,495,944)	(10,978,599)	(10,606,123)	25,214,742	37,191,336	(13,419,081)	2,906,331

5. FINANCIAL RISK MANAGEMENT (Continued)

5.4 Market risk (Continued)

5.4.2.1 Interest rate risk (continued)

As at 31 December 2022

	Upto 1 month KShs '000	1 - 3 months KShs '000	4 - 12 Months KShs '000	1 - 5 Years KShs '000	Over 5 years KShs '000	Non-interest bearing KShs '000	Total KShs '000
Assets							
Balances with Central Bank of Kenya	-	-	-	-	-	1,530,528	1,530,528
Government and investment securities	-	-	765,097	8,403,045	26,190,987	-	35,359,129
Placements with other banking institutions	236,286	61,715	-	-	-	-	298,001
Other assets	-	-	-	-	-	320,864	320,864
Loans and advances to customers	6,005,891	2,579,723	3,587,322	12,968,522	13,274,782	-	38,416,240
Financial assets at fair value through profit and loss	-	-	-	386,317	-	-	386,317
Total assets	6,242,177	2,641,438	4,352,419	21,757,884	39,465,769	1,851,392	76,311,079
Liabilities							
Deposits and balances from other banks	7,907,365	-	-	-	-	-	7,907,365
Customer deposits	13,963,831	11,086,398	13,028,564	126,380	-	11,100,639	49,305,812
Due to Central Bank of Kenya	8,776,682	-	-	5,807,246	-	-	14,583,928
Lease liabilities	-	-	103,636	695,579	9,438	-	808,653
Financial liabilities at fair value through profit and loss	-	-	-	-	-	386,317	386,317
Other liabilities	-	-	-	-	-	908,923	908,923
Total liabilities	30,647,878	11,086,398	13,132,200	6,629,205	9,438	12,395,879	73,900,998
On statement of financial position interest sensitivity gap	(24,405,701)	(8,444,960)	(8,779,781)	15,128,679	39,456,331	(10,544,487)	2,410,081

5. FINANCIAL RISK MANAGEMENT (Continued)

5.4 Market risk (Continued)

5.4.2.1 Interest rate risk (continued)

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

Group and Bank	2023				2022			
	KShs	US $	GB £	Euro	KShs	US $	GB £	Euro
	%	%	%	%	%	%	%	%
Government securities	11.9	7.5	-	-	11.7	7.7	-	-
Balances due from banking institutions	-	7.2	-	-	2.5	1.8	-	-
Loans and advances to customers	14.8	9.1	7.5	-	12.5	7.0	3.6	7.8
Balances due to banking institutions	-	-	-	-	8.5	5.8	-	-
Customer deposits	7.7	3.4	3.0	2.1	6.7	2.8	2.7	1.2

Interest rate risk sensitivity

At 31 December 2023, if the weighted average interest rate for loans and advances at that date had been 1 percent higher with all other variables held constant, post-tax profit for the year would have been KShs 247 million (2022: KShs 248 million) higher, arising mainly as a result of higher interest income.

At 31 December 2023, if the weighted average interest rate for customer deposits and deposits from other banking institutions, at that date had been 1 percent higher with all other variables held constant, post-tax profit for the year would have been KShs 376 million (2022: KShs 549 million) lower, arising mainly as a result of higher interest expense.

A similar decrease in interest rate would have yielded the same impact in the opposite direction in both cases.

5.4.2.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the net positions the Bank can hold in each currency, including foreign exchange positions of subsidiaries and both accounting and economic hedges.

The Bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. It conducts trade with correspondent banks and takes deposits and lends in other currencies. The Bank's currency position and exposure are managed within the exposure guideline of 10% of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management. The significant currency positions are as detailed out below:

5. FINANCIAL RISK MANAGEMENT (Continued)

5.4 Market risk (Continued)

5.4.2.2 Currency risk (continued)

GROUP AND BANK

	US $	GB £	Euro	Others	Total
As at 31 December 2023	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Financial assets					
Cash in hand	282,630	60,665	440,427	44,229	827,951
Balances with Central Bank of Kenya	302,647	39,507	32,194	4,931	379,279
Placements and balances with other banking institutions	4,047,107	360,085	72,028	151,691	4,630,911
Loans and advances to customers	18,001,264	865,222	806,395	-	19,672,881
Government investment securities	1,472,732	-	-	-	1,472,732
Other assets	8,397	3	-	-	8,400
Total financial assets	24,114,777	1,325,482	1,351,044	200,851	26,992,154
Financial liabilities					
Customer deposits	21,881,977	1,281,234	1,008,185	136,162	24,307,559
Other liabilities	99,433	20	1,772	3,054	104,278
Total financial liabilities	21,981,410	1,281,254	1,009,957	139,216	24,411,837
Net statement of financial position gap*	2,133,367	44,228	341,087	61,635	2,580,317
As at 31 December 2022					
Financial assets					
Cash in hand	165,098	32,260	252,211	31,639	481,208
Balances with Central Bank of Kenya	35,600	29,125	6,240	5,516	76,481
Placements and balances with other banking institutions	196,613	16,494	16,585	68,310	298,002
Loans and advances to customers	15,857,926	674,026	587,100	-	17,119,052
Government investment securities	1,138,347	-	-	-	1,138,347
Other assets	91,695	2	-	-	91,697
Total financial assets	17,485,279	751,907	862,136	105,465	19,204,787
Financial liabilities					
Customer deposits	10,985,466	808,489	705,055	53,717	12,552,727
Deposits and balances from other Banks	4,941,877	-	-	-	4,941,877
Other liabilities	2,220,989	31,677	252,119	4	2,504,789
Total financial liabilities	18,148,332	840,166	957,174	53,721	19,999,393
Net statement of financial position gap*	(663,053)	(88,259)	(95,038)	51,744	(794,606)

Net statement of financial position gap added to the off-statement of financial position instruments gives an overall net position of 4.5% of core capital as at 31st December 2023 (December 2022 was 3.6%), which is within the prudential guidelines of a maximum of 10% of core capital.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.4 Market risk (Continued)

5.4.2.2 Currency risk (continued)

Foreign exchange risk sensitivity

The table below summarizes the effect on profit or loss before tax and equity had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant. If the Kenya Shilling strengthened against each currency, the effect would have been the opposite:

GROUP AND BANK

At 31 December 2023

	US $ KShs '000	GB £ KShs '000	Euros KShs '000	Others KShs '000	Total KShs '000
Effect on profit or loss before tax	213,337	4,423	34,109	6,164	258,032
Effect on equity	149,336	3,096	23,876	4,315	180,623
Closing exchange rates	157	200	174		

At 31 December 2022

	US $ KShs '000	GB £ KShs '000	Euros KShs '000	Others KShs '000	Total KShs '000
Effect on profit or loss before tax	317,156	(8,809)	(9,496)	5,175	304,026
Effect on equity	222,009	(6,166)	(6,647)	3,622	212,818
Closing exchange rates	123	149	132		

5.4.3 Price risk sensitivity

The Bank is exposed to price risk on quoted investment securities

The table below summarizes the impact on increase in the market price on the Group's equity investments net of tax. The analysis is based on the assumption that the market prices had increased by 5% with all other variables held constant and all the Bank's equity instruments moved according to the historical correlation with the price:

	Impact on profit or loss and equity 2023 KShs '000	2022 KShs '000
Effect of increase on profit before tax	98	55
	=====	====

5. FINANCIAL RISK MANAGEMENT (Continued)

5.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising out of legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risk arises from the Group's operations and is faced by all other business entities.

The Group endeavors to manage the operational risk by creating a balance between avoidance of cost or financial losses and damage to the Group's reputation within overall cost effectiveness and to avoid control procedures that restrict creativity and initiative. The key responsibility for development policies and programs to implement the Group's operational risk management is with the senior management of the Group.

The above is achieved by development of overall standards for the Group to manage the risk in the following areas:

- Segregation of duties including independent authorization of transactions
- Monitoring and reconciliation of transactions
- Compliance to regulatory and legal requirements
- Documentation of controls and procedures
- Assessment of the operational risk on a periodic basis to address the deficiencies observed, if any
- Reporting of operational losses and initiation of remedial action
- Development of contingency plans
- Training staff to improve their professional competency
- Exercising good ethical and business standards.

5.6 Compliance and regulatory risk

Compliance and regulatory risk includes the risk of bearing the consequences of non-compliance with regulatory requirements. The Compliance function is responsible for establishing and maintaining an appropriate framework of Bank compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all Managers.

5.7 Environmental and social risks

Environmental and social risks are the risks that the Bank could bear the consequences of socio-environmental fall-out of transactions. Such risks could arise from failure of the Bank to assess the impacts of activities (of both the Bank and its clients) which could hurt the environment or have negative social impact.

The Bank is aware that it has a responsibility to ensure that its internal practice and its lending activities do not have negative environmental and social impacts and is thus committed to ensure that such risks are sufficiently managed through its Environmental and Social Management policy and by adopting the country's Labor and environmental laws. The Bank also adheres to international best practice (IFC performance standards and ILO standards as ratified by the Kenya government). An Environmental and Social Management system is being put in place to ensure due diligence and monitoring of the Environmental and Social risk is done efficiently. Compliance with these laws is monitored by the compliance function.

6. MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

6.1 Impairment losses on financial assets

As disclosed in Note 3.9, the measurement of impairment losses both under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model
- The Bank's loan book segmentation based on industry sectors
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

6.2 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

6.3 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. The determination of fair value has been disclosed in Note 3.5 and Note 38.

6. MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

6.3 Fair value of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

GROUP

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
	KShs '000	KShs '000	KShs '000	KShs '000
31 December 2023				
Investments at FVOCI (debt and equity instruments)				
Debt securities [note 18(c)]	4,061,967	-	-	4,061,967
Equity securities [note 19(b)]	2,841	-	-	2,841
Loans and advances at fair value through profit or loss	-	-	742,837	742,837
Total assets	4,064,808	-	742,837	4,807,645
Derivative financial liabilities				
Financial liabilities at fair value through profit or loss	-	-	742,837	742,837
Total liabilities	-	-	742,837	742,837
31 December 2022				
Investments at FVOCI (debt and equity instruments)				
Debt securities [note 18(c)]	14,372,221	-	-	14,372,221
Equity securities [note 19(b)]	1,614	-	-	1,614
Loans and advances at fair value through profit or loss	-	-	386,317	386,317
Total assets	14,373,835	-	386,317	14,760,152
Derivative financial liabilities				
Financial liabilities at fair value through profit or loss	-	-	386,317	386,317
Total liabilities	-	-	386,317	386,317

6. MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

6.3 Fair value of financial instruments (Continued)

BANK

	Quoted prices in active markets Level 1 KShs '000	Significant observable inputs Level 2 KShs '000	Significant unobservable inputs Level 3 KShs '000	Total KShs '000
31 December 2023				
Investments at FVOCI (debt and equity instruments)				
Debt securities [note 18(c)]	4,061,967	-	-	4,061,967
Equity securities [note 19(b)]	2,801	-	-	2,801
Financial assets at fair value through profit or loss			742,837	742,837
Total assets	4,064,768	-	742,837	4,807,605
Derivative financial liabilities				
Financial liabilities at fair value through profit or loss	-	-	742,837	742,837
Total liabilities	-	-	742,837	742,837
31 December 2022				
Investments at FVOCI (debt and equity instruments)				
Debt securities [note 18(c)]	14,372,221	-	-	14,372,221
Equity securities [note 19(b)]	1,574	-	-	1,574
Financial assets at fair value through profit or loss	-	-	386,317	386,317
Total assets	14,373,795	-	386,317	14,760,112
Derivative financial liabilities				
Financial liabilities at fair value through profit or loss	-	-	386,317	386,317
Total liabilities	-	-	386,317	386,317

6. MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

6.4 Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and tax losses carried forward to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and tax losses carried forward can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

6.5 Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

In determining the IBR to apply, the Bank considered the yield on 6-year Government securities as the most readily observable rate after assessing the lease term on all its leases to be on average 6 years. The yield is a market determined rate by providers and users of funds the best estimates what a lender would be willing to avail funding and a market participant would access funding from the market.

7. BUSINESS COMBINATION

There was no business combination entered into in the 2023 financial year. On 18 August 2018 the Bank completed the acquisition of certain assets and assumption of specific liabilibilities of Chase Bank (Kenya) Limited-In Receivership.

Below is the descriptions of the contingent considerations that arose from the business combination:

a. Fully written off loans

There was certain fully impaired loan portfolio with a carrying amount of KShs 21.453 billion at the acquisition date, which the Bank acquired as part of the business combination. These were non-performing, unsecured loans without repayment history and no proper credit documentation, a proportion of which was disputed by the customers. As required by IFRS 3, Business combinations, these loans were, therefore, recognised at nil fair value at the acquisition date.

As a result, a contingent consideration, representing future cash flows related to the proceeds that may be received from any recoveries of these loans, arose. This contingent consideration is fair valued at nil, which is the same as the fair value of the related loans.

b. Properties to be transferred to the Bank

As at the acquisition date, there were certain properties with a market value of KShs 7.31 billion in which Chase Bank Limited in Receivership (CBLIR) had interest but could not be transferred to the Group at the acquisition date. As required by IFRS 3, Business combinations, the properties were recognised at fair value determined at nil. As a result, a contingent consideration, representing future cash flows related to the proceeds that may be received from the disposal of these properties, arose. This contingent consideration is fair valued at nil, which is the same as the fair value of the related properties.

c. Islamic Loan Portfolio

As at the acquisition date, there was certain Islamic loan portfolio which the SBM Bank acquired from Chase Bank Limited in Receivership as part of the business combination on transitory basis.

A contingent consideration, representing future cash flows related to the proceeds that may be received from monthly collections of this portfolio, arose. This contingent consideration is fair valued at KShs. 742,837,000 (2022: KShs 386,317,000), which is the total outstanding balance of the Islamic loan portfolio acquired from Chase Bank in Receivership.

The table below shows the movement in the fair value of these loans during the year:

Balances as at 31 December	2023 KShs '000	2022 KShs '000
Financial assets at fair value through profit or loss		
At beginning of the year	386,317	574,289
Collections in 2023	(345,321)	(187,972)
Re-evaluation of Islamic book	701,841	-
At end of the year	742,837	386,317

8. NET INTEREST INCOME

	Group		Bank	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Interest income:				
Loans and advances to customers	5,401,674	3,825,064	5,401,674	3,825,064
Government securities	4,144,301	4,250,711	4,144,301	4,250,711
Money market lending	34,692	21,484	34,692	21,484
	9,580,667	8,097,259	9,580,667	8,097,259
Interest expense:				
Customer deposits	(3,421,301)	(3,091,138)	(3,421,301)	(3,091,138)
Money market borrowings	(1,986,108)	(736,077)	(1,986,108)	(736,077)
Interest expense on lease liability (note 30)	(73,552)	(86,074)	(73,552)	(86,074)
Other borrowings (note 28)	(288,073)	(1,009,766)	(288,073)	(1,009,766)
	(5,769,034)	(4,923,055)	(5,769,034)	(4,923,055)
Net interest income	3,811,633	3,174,204	3,811,633	3,174,204

9. NET FEE AND COMMISSION INCOME

(a) Fee and commission income:				
Commitment charges on loans	141,425	171,947	141,425	171,947
Processing fees on loans	3,031	7,645	3,031	7,645
Ledger fees	35,715	32,446	35,715	32,446
Card income	143,202	79,279	143,202	79,279
Commission fees and charges	176,009	153,114	176,009	153,114
	499,382	444,431	499,382	444,431
(b) Fee and commission expense:				
Correspondent and other bank charges	(13,451)	(12,238)	(13,451)	(12,238)
Brokerage fees and commissions	(4,817)	(4,672)	(4,817)	(4,672)
	(18,268)	(16,910)	(18,268)	(16,910)
Net fee and commission	481,114	427,521	481,114	427,521

10(a) FOREIGN EXCHANGE INCOME

Realised gains	777,307	613,567	777,307	613,567
Unrealised gains	33,102	22,068	33,102	22,068
	810,409	635,635	810,409	635,635

10(b) OTHER OPERATING INCOME-Group and Bank

	2023 KShs' 000	2022 KShs' 000
Gain on sale of government securities	7,095	51,459
(Loss)/gain on disposal of property and equipment	(4,195)	6,030
Other miscellaneous income*	92,413	32,472
	95,313	89,961

*Other miscellaneous income mainly consists of recoveries from items written off that have been recovered.

11. PERSONNEL EXPENSES

	Group		Bank	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Salaries and wages	1,941,062	1,697,988	1,941,062	1,697,988
Staff leave accrual	-	41,483	-	41,483
Social security and pension contributions	95,216	77,014	95,216	77,014
Staff welfare cost	44,616	19,190	44,616	19,190
Staff insurances	158,706	144,782	158,706	144,782
Performance incentive	-	505	-	505
Other staff costs*	68,881	175,618	68,881	175,618
	2,308,481	2,156,580	2,308,481	2,156,580

*Other staff costs include expenses relating to staff training, acting allowances and other miscellaneous staff costs.

The closing number of persons in employment during the year were:

	Bank and Group	
	2023	2022
Management and administration	652	632

12. OTHER OPERATING EXPENSES

a) Other operating expenses

	Group		Bank	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Contribution to Kenya Deposit Insurance Corporation	97,774	97,744	97,774	97,744
Software licensing and other information technology costs	847,720	783,472	847,720	783,472
Auditors' fees	12,360	9,600	12,360	9,600
Professional fees	215,468	192,443	215,468	192,443
Directors' fees	15,616	14,221	15,616	14,221
Utilities	53,230	39,912	53,230	39,912
Marketing costs	120,294	93,826	120,293	93,826
Operating lease rentals (note 24)	12,057	16,490	12,057	16,490
Licence and other registration fees	28,138	33,277	28,138	33,277
Other general and administrative expenses*	591,193	637,965	591,186	637,955
	1,993,850	1,918,950	1,993,842	1,918,940

*Other general and administrative expenses mainly consist of guarding expenses, insurance premiums, office expenses, repair and maintenance expenses, travelling expenses and accommodation costs.

12. OTHER OPERATING EXPENSES (Continued)

b) Depreciation and amortisation charges

	Group		Bank	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Depreciation on property and equipment (note 22)	173,351	222,775	173,351	222,775
Amortisation of intangible assets (note 23)	110,657	58,905	110,657	58,905
Depreciation on right-of-use asset (note 24)	211,497	209,312	211,497	209,312
	495,505	490,992	495,505	490,992

13. NET IMPAIRMENT CHARGE ON FINANCIAL ASSETS

The following table below summarises the net impairment charges recorded in the statement of comprehensive income under IFRS 9:

	Group		Bank	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
a) Total portfolio and specific impairment				
On-balance sheet loans and advances	271,418	(272,650)	271,418	(272,650)
Off-balance sheet exposure	(427)	(15,065)	(427)	(15,065)
Net increase/(decrease) in impairment	270,991	(287,715)	270,991	(287,715)
b) Net increase/(decrease) in impairment loss on financial instruments				
Total portfolio and specific impairment	270,991	(287,715)	270,991	(287,715)
	270,991	(287,715)	270,991	(287,715)
Net decrease in ECL impairment loss on financial instruments is made up of:				
Net (write back)/charge on Government securities at amortised cost (note 18(a))	(2,316)	3,803	(2,316)	3,803
Net (write back)/charge on Government securities at FVOCI (note 18(c))	(923)	(755)	(923)	(755)
Net write back on cash and cash equivalents (note 16 (c))	112	(23)	112	(23)
Net write back on off balance sheet exposure[note 32(b)]	(427)	(15,065)	(427)	(15,065)
Total other credit provisions write back	(3,554)	(12,040)	(3,554)	(12,040)
Allowance for credit impairment on loans and advances	808,828	538,295	808,828	538,295
Recoveries of impaired loans and advances	(534,283)	(813,970)	(534,283)	(813,970)
Net (write back)/charge on loans and advances (note 17 (d))	274,545	(275,675)	274,545	(275,675)
Net increase/(decrease) in impairment	270,991	(287,715)	270,991	(287,715)

14. TAX

a) Profit before tax is arrived at after	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Charging:				
Depreciation on property and equipment (Note 22)	173,352	222,775	173,352	222,775
Amortisation of intangible assets (Note 23)	110,657	58,905	110,657	58,905
Depreciation on right of use asset	211,497	209,312	211,497	209,312
Directors' emoluments;				
- Fees as non-executives	15,616	14,221	15,616	14,221
- Other	103,806	94,588	103,806	94,588
Auditors' remuneration	12,360	9,600	12,360	9,600

b) Income tax credit				
Current tax charge	(220,820)	(546,592)	(220,820)	(546,592)
Deferred tax credit (Note 25):				
- Originating and temporary difference	242,597	630,459	242,597	630,459
- Under over provision in the prior year	(637)	(1,934)	(637)	(1,934)
Tax credit	21,140	81,933	21,140	81,933

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Profit before tax	129,642	48,514	129,650	48,524
Tax calculated at a rate of 30% (2022:30%)	(38,893)	(14,556)	(38,895)	(14,556)
Expenses not deductible for tax purposes*	(32,278)	(21,738)	(32,276)	(21,738)
Income not allowable for tax purposes**	100,191	120,161	100,191	120,161
Over provision of deferred tax in prior year	(637)	(1,934)	(637)	(1,934)
Deferred tax on fair value loss derecognized	(7,243)	-	7,243	-
Tax credit	21,140	81,933	21,140	81,933

* The expenses include depreciation of non-qualifying assets, fringe benefit tax and pension.
** The incomes include infrastructure bonds interest income and revaluation on bonds.

14. TAX (Continued)

c) Current tax liabilities

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
At 1 January	(1,399)	843	(1,399)	(1,734)
Paid during the year	217,605	544,350	217,605	546,927
Charge for the year	(220,820)	(546,592)	(220,820)	(546,592)
At 31 December	(4,614)	(1,399)	(4,614)	(1,399)

15. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the shareholders by the weighted average number of shares outstanding during the year.

	GROUP		BANK	
	2023	2022	2023	2022
Profit for the year attributable to shareholders (KShs'000)	150,782	130,447	150,790	130,457
Weighted average number of ordinary shares in issue (thousands)	51,703,007	51,703,007	51,703,007	51,703,007
Earnings per share: Basic and diluted (KShs.)	0.0029	0.0025	0.0029	0.0025

There were no dilutive potential ordinary shares outstanding at 31 December 2023 (2022: nil).

16. CASH AND CASH EQUIVALENTS

a) Cash and bank balances with Central Bank

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Cash in hand	629,276	822,062	629,276	822,062
Foreign currency notes and coins	827,950	481,209	827,950	481,209
Balances with Central Bank of Kenya:				
Restricted balances (cash reserve ratio)	1,671,977	1,354,748	1,671,977	1,354,748
Unrestricted balances with Central Bank *	286,555	175,779	286,555	175,779
	3,415,758	2,833,798	3,415,758	2,833,798

*Unrestricted balances with Central Bank of Kenya represent amounts above the minimum cash reserve requirement. As at 31 December 2023, the cash reserve ratio requirement was 4.25 % (2022 - 4.25%) of customer deposits as adjusted as per the prudential guidelines.

16. CASH AND CASH EQUIVALENTS (Continued)

b) Placements and balances with other banking institutions:

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Loans to and placements with other banks*				
-Balances with banks in Kenya	473,812	61,715	473,812	61,715
-Balances with other banks abroad	4,157,097	236,286	4,157,097	236,286
Expected credit loss	(112)	-	(112)	-
	4,630,797	298,001	4,630,797	298,001

*The balances above relate to loans and placements with other banks having an original maturity of up to three months.

c) ECL impairment on placements and balances with other banking institutions

GROUP AND BANK

31 DECEMBER 2023

	Stage 1	Stage 2	Stage 3	Total
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
At 1 January 2023	-	-	-	-
Remeasurement	112	-	-	112
At 31 December	112	-	-	112

31 DECEMBER 2022

	Stage 1	Stage 2	Stage 3	Total
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
At 1 January 2022	23	-	-	23
Payments and assets derecognised	(23)	-	-	(23)
At 31 December	-	-	-	-

17. LOANS AND ADVANCES TO CUSTOMERS

a) Loans and advances - Pillars

	Group		Bank	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Corporate	32,656,463	27,032,489	32,656,463	27,032,489
SME	9,730,347	9,003,694	9,730,347	9,003,694
Retail	9,718,072	8,393,268	9,718,072	8,393,268
	52,104,882	44,429,451	52,104,882	44,429,451
Less: allowances for impairment losses	(6,514,581)	(6,013,211)	(6,514,581)	(6,013,211)
	45,590,301	38,416,240	45,590,301	38,416,240

17. LOANS AND ADVANCES TO CUSTOMERS (Continued)

b) Credit quality and exposure

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification.
The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system are explained in Note 5.2. and the Bank's impairment assessment and measurement approach also set out in Note 5.2.

GROUP and Bank

31 December 2023

	KShs '000	KShs '000	KShs '000	KShs '000
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Performing:				
Grade 1 - Normal risk	32,914,273	-	-	32,914,273
Grade 2 - Watch risk	-	5,099,990	-	5,099,990
Non-performing:				
Grade 3 - Substandard risk	-	-	394,435	394,435
Grade 4 - Doubtful risk	-	-	8,561,779	8,561,779
Grade 5 - Loss	-	-	5,134,405	5,134,405
	32,914,273	5,099,990	14,090,619	52,104,882

31 December 2022

Internal rating grade				
Performing:				
Grade 1 - Normal risk	30,075,990	-	-	30,075,990
Grade 2 - Watch risk	-	1,851,301	-	1,851,301
Non-performing:				
Grade 3 - Substandard risk	-	-	78,443	78,443
Grade 4 - Doubtful risk	-	-	7,410,840	7,410,840
Grade 5 - Loss	-	-	5,012,877	5,012,877
	30,075,990	1,851,301	12,502,160	44,429,451

c) Changes in gross carrying amount

A reconciliation for changes in the gross carrying amount of the loan book is as follows:

GROUP AND BANK

	KShs '000	KShs '000	KShs '000	KShs '000
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2023	30,075,982	1,851,301	12,502,160	44,429,443
New assets originated or purchased	12,880,309	240,301	855,952	13,976,562
Payments and assets derecognised	(9,792,050)	(449,403)	(612,136)	(10,853,589)
Transfers to Stage 1	120,209	(112,856)	(7,353)	-
Transfers to Stage 2	(2,868,285)	2,873,594	(5,309)	-
Transfers to Stage 3	(275,347)	(379,661)	655,008	-
Changes to contractual cash flows due to modifications not resulting in derecognition	2,773,455	1,076,714	702,297	4,552,466
At 31 December 2023	32,914,273	5,099,990	14,090,619	52,104,882

17. LOANS AND ADVANCES TO CUSTOMERS (Continued)

c) Changes in gross carrying amount (continued)

A reconciliation for changes in the gross carrying amount of the loan book is as follows:

GROUP AND BANK

	KShs '000 Stage 1	KShs '000 Stage 2	KShs '000 Stage 3	KShs '000 Total
As at 1 January 2022	22,285,633	377,279	12,855,093	35,518,005
New assets originated or purchased	11,876,096	98,197	11,273	11,985,566
Payments and assets derecognised	(3,496,056)	(53,372)	(1,180,225)	(4,729,653)
Transfers to Stage 1	840,513	(29,281)	(811,232)	-
Transfers to Stage 2	(1,394,631)	1,395,201	(570)	-
Transfers to Stage 3	(351,564)	(126,472)	478,036	-
Changes to contractual cash flows due to modifications not resulting in derecognition	315,999	189,749	1,149,785	1,655,533
At 31 December 2022	30,075,990	1,851,301	12,502,160	44,429,451

d) Changes in ECL provisions

A reconciliation of changes in ECL provision for the loan book is as follows:

GROUP AND BANK

	KShs '000 Stage 1	KShs '000 Stage 2	KShs '000 Stage 3	KShs '000 Total
At 1 January 2023	211,082	45,430	5,756,699	6,013,211
New assets originated or purchased	11,706	16,129	396,897	424,732
Payments and assets derecognised	(91,493)	(21,769)	(568,478)	(681,740)
Transfers to Stage 1	240	(213)	(27)	-
Transfers to Stage 2	(34,003)	34,025	(22)	-
Transfers to Stage 3	(115,542)	(167,355)	282,897	-
Changes to contractual cash flows-modifications not resulting in derecognition	121,114	164,468	1,007,079	1,292,661
Write back on impaired loans repaid	-	-	(534,283)	(534,283)
At 31 December 2023	103,104	70,715	6,340,762	6,514,581

17. LOANS AND ADVANCES TO CUSTOMERS (Continued)

d) Changes in ECL provisions (continued)

A reconciliation of changes in ECL provision for the loan book is as follows:

GROUP AND BANK

	KShs '000 Stage 1	KShs '000 Stage 2	KShs '000 Stage 3	KShs '000 Total
At 1 January 2022	194,032	47,906	6,195,137	6,437,075
New assets originated or purchased	82,986	3,889	11,263	98,138
Payments and assets derecognised	13,131	(6,298)	40,282	47,115
Transfers to Stage 1	(1,003)	475	528	-
Transfers to Stage 2	(22,196)	21,405	791	-
Transfers to Stage 3	(149,134)	(1,426)	150,560	-
Changes to contractual cash flows-modifications not resulting in derecognition	93,266	(20,521)	172,108	244,853
Write back on impaired loans repaid	-	-	(813,970)	(813,970)
At 31 December 2022	211,082	45,430	5,756,699	6,013,211

The net ECL on loans and advances charge to the income statement during the year is KShs 274,545,000 (2022: Net write back of KShs 275,675,000).

	2023 KShs '000	2022 KShs '000
Bad debts recovered for the year	(534,283)	(813,970)
Allowance for expected credit losses for the year(Note 13 (b)	808,828	538,295
Net charge/(write back) (note 13 (b))	274,545	(275,675)

18. GOVERNMENT SECURITIES

The Government securities held are classified as follows:
GROUP and Bank

	2023 KShs' 000	2022 KShs' 000
Government securities measured at amortised cost:	31,185,645	20,993,851
Government securities measured at fair value through other comprehensive income (FVOCI)	4,061,968	14,373,728
ECL	(5,212)	(8,450)
	35,242,401	35,359,129

Expected credit loss

Net ECL provisions write back to the income statement for all Government securities was KShs 3,238,510 (2022: charge of KShs 3,047,603) detailed as below;

- Write back of KShs 2,315,690 (2022: charge of KShs 3,802,883) on Government securities held at amortised cost.
- Write back of KShs 922,820 (2022: write back of KShs 755,280) on Government securities held at FVOCI.

18. GOVERNMENT SECURITIES (Continued)

a) Government securities measured at amortised cost:

The tables below show movements in both carrying amounts and ECL provisions under each category of Government securities;

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Treasury bonds	31,181,018	20,986,908	31,181,018	20,986,908

The table below shows movement in Government securities measured at amortised cost during the year.

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
At 1 January	20,986,908	20,837,804	20,986,908	20,837,804
Purchases	10,220,000	1,138,347	10,220,000	1,138,347
Maturities	(902,877)	(922,855)	(902,877)	(922,855)
Movement in accrued interest	850,240	(89,451)	850,240	(89,451)
Amortisation of discounts and premiums	31,374	30,006	31,374	30,006
Expected credit loss	(4,627)	(6,943)	(4,627)	(6,943)
At 31 December	31,181,018	20,986,908	31,181,018	20,986,908

The table below shows movement in ECL provisions on Government securities measured amortized cost during the year.

	GROUP			BANK
	2023	2022	2023	2022
	KShs'000	KShs' 000	KShs'000	KShs'000
At 1 January	6,943	3,140	6,943	3,140
Re-measurement of year end ECL	(2,316)	3,803	(2,316)	3,803
At 31 December	4,627	6,943	4,627	6,943

Total income statement write back of ECL on Government securities measured at amortized cost was KShs 2,316,900 (2022: charge of KShs 3,802,883).All Government securities held were classified under Stage 1.

18. GOVERNMENT SECURITIES (Continued)

b) Government securities measured at fair value through other comprehensive income (FVOCI)

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Treasury bonds	4,061,383	14,372,221	4,061,383	14,372,221

The table below shows movement in Government securities measured at FVOCI during the year.

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
At 1 January	14,372,221	15,488,834	14,372,221	15,488,834
Purchase	300,000	2,820,380	300,000	2,820,380
Maturities/sales	(10,520,000)	(3,070,379)	(10,520,000)	(3,070,379)
Movement in accrued interest	(358,303)	208,175	(358,303)	208,175
Amortisation of discounts and premiums	(28,186)	(211,396)	(28,186)	(211,396)
Movement in fair value through OCI	296,236	(861,885)	296,236	(861,885)
Expected credit loss	(585)	(1,508)	(585)	(1,508)
At 31 December	4,061,383	14,372,221	4,061,383	14,372,221

The table below shows movement in the ECL provisions on Government securities measured at FVOCI:

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
At 1 January	1,508	2,263	1,508	2,263
Re-measurement of year end ECL	(923)	(755)	(923)	(755)
At 31 December	585	1,508	585	1,508

Total income statement write back for ECL on Government securities measured at FVOCI was KShs 922,820 (2022: write back of KShs 755,280). There were no Government securities measured at FVOCI classified under stages 2 and 3.

Government securities amounting to KShs 24,834 million were held under lien as at 31 December 2023 (2022: KShs 18,730 million). Refer to note 32 (c) for further details.

The fair value of the Government securities measured at fair value through profit or loss are under the Level 1 class of fair value based on the information set out in accounting policy note 3.5 on determination of fair value.

The fair value of the Government securities measured at fair value through other comprehensive income are under the Level 1 class of fair value based on the information set out in accounting policy note 3.5 on determination of fair value.

The fair value of the treasury bonds in Government securities measured at amortised cost was KShs 31,185 million as at 31 December 2023 (2022: KShs. 20,986 million). These are under the Level 1 class of fair value based on the information set out in accounting policy note 3.5 on determination of fair value.

19. INVESTMENT SECURITIES

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Investment securities measured at amortized cost:				
Investment securities designated at FVPL:				
Equity investments	2,841	1,614	2,801	1,574
Total investment in securities	2,841	1,614	2,801	1,574

a) Movement in investment securities at FVPL during the year which are made up of quoted equity investments were as follows

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
At 1 January	1,614	1,614	1,574	1,574
Fair value gain recognized in profit or loss	1,227	-	1,227	-
At 31 December	2,841	1,614	2,801	1,574

The fair values of the quoted equity instruments are under the Level 1 class of fair value based on the information set out in note 3.5 on determination of fair value and on note 6.3.

20. OTHER ASSETS

Other assets and other receivables that have fixed or determinable payments and that are not quoted in an active market are measured at amortised cost less any impairment loss.

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Deposits and prepayments	376,178	465,279	376,178	465,279
Other receivables*	658,637	320,864	658,637	320,864
	1,034,815	786,143	1,034,815	786,143

*Other receivables mainly constitutes items in transit including Safaricom settlement accounts.

21. INVESTMENT IN SUBSIDIARIES

a) Summary of investment in subsidiaries

Company	% held	2023 KShs' 000	2022 KShs' 000
Kentbury Investments Limited (Trading)	100%	17,587	17,587
Finsure Insurance Brokers Limited (Insurance brokerage)	100%	10,025	10,025
Richardson Properties Limited (Real estate investment)	100%	121,340	121,340
Rover Investments Limited (Real estate investment)	100%	187,442	187,442
		336,394	336,394
Less impairment		(336,394)	(336,394)
		-	-

The investment in subsidiaries is impaired. In impairing the investment in subsidiaries, the management considered the fact that the companies are currently dormant and are not expected to generate any revenue.

b) The Summarized Financial Information of the Subsidiaries is as shown below:

	Current assets		Non-current assets		Current liabilities		Non -current liabilities	
	2023 KShs' 000	2022 KShs' 000	2023 KShs' 000	2022 KShs' 000	2023 KShs' 000	2022 KShs' 000	2023 KShs' 000	2022 KShs' 000
Kentbury Investments Limited (Trading)	13,574	14,066	40	40	239	727	-	-
Finsure Insurance Brokers Limited (Insurance brokerage)	-	292	-	-	727	727	-	-
Richardson Properties Limited (Real estate investment)	-	-	-	-	727	727	-	-
Rover Investments Limited (Real estate investment)	-	166	-	-	563	727	-	-
	=====	======	======	======	======	======	======	======

	Revenues		Loss before tax		Total comprehensive income	
	2023 KShs' 000	2022 KShs' 000	2023 KShs' 000	2022 KShs' 000	2023 KShs' 000	2022 KShs' 000
Kentbury Investments Limited (Trading)	-	-	(5)	(5)	(5)	(5)
Finsure Insurance Brokers Limited (Insurance brokerage)	-	-	-	-	-	-
Richardson Properties Limited (Real estate investment)	-	-	-	-	-	-
Rover Investments Limited (Real estate investment)	-	-	(3)	(5)	(3)	(5)
	======	======	======	======	======	======

22. PROPERTY AND EQUIPMENT

GROUP

Year ended 31 December 2023

	Leasehold land and buildings	Computers copiers and faxes	Motor vehicles	Furniture and fittings	Office equipment	Work-in-progress	Total
	KShs' 000	KShs' 000	KShs' 000	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Cost							
At start of the year	200,000	225,516	53,124	902,704	524,102	22,137	1,927,583
Additions	-	13,318	-	23,757	8,097	462,327	507,499
Disposals/write offs	-	(895)	-	(31,866)	(13,208)	-	(45,969)
Capitalization of work in progress*	-	-	-	-		(22,137)	(22,137)
At end of the year	200,000	237,939	53,124	894,595	518,991	462,327	2,366,976
Depreciation							
At start of the year	100,000	163,251	53,124	661,344	395,362	-	1,373,081
Charge for the year	25,000	30,315	-	76,612	41,424	-	173,351
Elimination on disposal/write off	-	(895)	-	(28,643)	(12,236)	-	(41,774)
At end of the year	125,000	192,671	53,124	709,313	424,550	-	1,504,658
Net carrying amount	75,000	45,268	-	185,282	94,441	462,327	862,318

There were no commitments to acquire property and equipment as at year end (2022: none).
* Relates to capitalization of work in progress for intangible assets.

22. PROPERTY AND EQUIPMENT (Continued)

GROUP

Year ended 31 Decmber 2022

	Leasehold land and buildings KShs' 000	Computers copiers and faxes KShs' 000	Motor vehicles KShs' 000	Furniture and fittings KShs' 000	Office equipment KShs' 000	Work-in-progress KShs' 000	Total KShs' 000
Cost							
At start of the year	202,448	217,291	62,099	853,661	523,574	54,939	1,914,012
Additions	-	9,143	-	44,949	528	(32,802)	21,818
Disposals/write offs	-	(561)	(8,975)	1,289	-	-	(8,247)
Re-classifications	(2,448)	(357)	-	2,805	-	-	-
At end of the year	200,000	225,516	53,124	902,704	524,102	22,137	1,927,583
Depreciation							
At start of the year	81,459	135,873	59,443	550,580	330,637	-	1,157,992
Charge for the year	18,541	27,727	2,681	111,959	61,867	-	222,775
Elimination on disposal/write off	-	(349)	(9,000)	(1,195)	2,858	-	(7,686)
At end of the year	100,000	163,251	53,124	661,344	395,362	-	1,373,081
Net carrying amount	100,000	62,265	-	241,360	128,740	22,137	554,502

*Re-classification include items capitalized and commissioned in the course of the year as follows: furniture and fittings KShs 14,899,000 Office equipment KShs 13,740,000 and intangible assets KShs 6,119,000.

There were no commitments to acquire property and equipment as at year end (2022: none).

Leasehold land and building LR No. Mombasa/Block XXI/606 and LR No. 209/8873/2 Waiyaki Way have been pledged for a liability due to Central Bank of Kenya. The liability was fully settled during the year.

22. PROPERTY AND EQUIPMENT (Continued)

BANK

Year ended 31 December 2023

	Leasehold land and buildings KShs' 000	Computers Copiers and faxes KShs' 000	Motor vehicles KShs' 000	Furniture and fittings KShs' 000	Office equipment KShs' 000	Work-in-progress KShs' 000	Total KShs' 000
Cost							
At start of the year	200,000	225,516	53,124	902,704	524,102	22,137	1,927,583
Additions	-	13,318	-	23,757	8,097	462,327	507,499
Disposals/write offs	-	(895)	-	(31,866)	(13,208)	-	(45,969)
Capitalization of work in progress*	-	-	-	-		(22,137)	(22,137)
At end of the year	200,000	237,939	53,124	894,595	518,991	462,327	2,366,976
Depreciation							
At start of the year							
Charge for the year	100,000	163,251	53,124	661,344	395,362	-	1,373,081
Elimination on disposal/write off	25,000	30,315	-	76,612	41,424	-	173,351
Re-classifications	-	(895)	-	(28,643)	(12,236)	-	(41,774)
At end of the year	125,000	192,671	53,124	709,313	424,550	-	1,504,658
Net carrying amount	75,000	45,268	-	185,282	94,441	462,327	862,318

There were no commitments to acquire property and equipment as at year end (2022: none).

* Relates to capitalization of work in progress for intangible assets.

22. PROPERTY AND EQUIPMENT (Continued)

BANK

Year ended 31 December 2022

	Leasehold land and buildings KShs' 000	Computers Copiers and faxes KShs' 000	Motor vehicles KShs' 000	Furniture and fittings KShs' 000	Office equipment KShs' 000	Work-in-progress KShs' 000	Total KShs' 000
Cost							
At start of the year	200,000	216,934	62,099	858,758	523,574	54,939	1,916,304
Additions	-	9,143	-	44,949	528	(32,802)	21,818
Disposals/write offs	-	(561)	(8,975)	(1,003)	-	-	(10,539)
At end of the year	200,000	225,516	53,124	902,704	524,102	22,137	1,927,583
Depreciation							
At start of the year	81,459	135,524	59,418	550,388	333,495	-	1,160,284
Charge for the year	18,541	27,727	2,681	111,959	61,867	-	222,775
Elimination on disposal/write off	-	-	(8,975)	(1,003)	-	-	(9,978)
Re-classifications	-	-	-	-	-	-	
At end of the year	100,000	163,251	53,124	661,344	395,362	-	1,373,081
Net carrying amount	100,000	62,265	-	241,360	128,740	22,137	554,502

*Re-classification include items capitalized and commissioned in the course of the year as follows: furniture and fittings KShs 14,899,000, Office equipment KShs 13,740,000 and intangible assets KShs 6,119,000.

There were no commitments to acquire property and equipment as at year end (2022: none).

Leasehold land and building LR No. Mombasa/Block XXI/606 and LR No. 209/8873/2 Waiyaki Way have been pledged for a liability due to Central Bank of Kenya. The liability was fully settled during the year.

23. INTANGIBLE ASSETS - SOFTWARE COSTS

	Group and Bank	
	2023	2022
	KShs' 000	KShs' 000
Cost		
At start of year	949,165	686,950
Additions	60,511	262,215
Capitalization of work in progress	22,137	-
At end of year	1,031,813	949,165
Amortisation		
At start of year	629,677	570,772
Charge for the year	110,657	58,905
At end of year	740,334	629,677
Net carrying amount	291,479	319,488

24. RIGHT OF USE ASSETS

Group as a lessee

The Group has lease contracts for various properties used as office space for its branches and head office. Leases of property generally have lease terms of between 4 and 6 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

The Group also has certain assets of low value. The group applies the low-value assets' recognition exemptions for these leases.

As at 1 January 2023, right of use asset of KShs 707,372,000 was recognized equal to the present value of remaining lease payments discounted using the incremental borrowing rate as disclosed in Note 3.19 and Note 6.8.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

GROUP AND BANK

	2023	2022
	Kshs'000	Kshs'000
At 1 January	707,372	836,137
Additions	280,535	91,431
Depreciation charge for the year	(211,497)	(209,312)
Discontinuations	(7,671)	(10,884)
At 31 December	768,739	707,372

24. RIGHT OF USE ASSETS (Continued)

The following are the amounts recognised in profit or loss:

	2023 KShs'000	2022 KShs'000
Depreciation expense of right-of-use assets	211,497	209,312
Interest expense on lease liabilities	73,552	86,074
Expense relating to leases of low-value assets [note 12(a)]	12,057	16,490
At 31 December 2023	297,106	311,876

The Group had total cash outflows for leases of KShs 302,499,000 (Total payments of KShs 290,441,000 and KShs 12,057,000 relating to leases of low value) in 2023.

Commitments relating to future rent payable for the premises based in the contracts and projected renewals were as follows;

	2023 KShs' 000	2022 KShs' 000
Maturing within one year	301,148	126,139
Maturing over one to five years	670,782	788,013
Maturing in over 5 years	108,847	-
	1,080,777	914,152

Group as a lessor

The Group has entered into operating leases on its own building. These leases have terms of between one and five years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Rental income recognised by the Group during the year is KShs 5,379,000 (2022: KShs 6,166,000).

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2023 KShs' 000	2022 KShs' 000
Maturing within one year	3,113	5,192
Maturing over one to five years	3,324	11,821
	6,437	17,013

25. DEFERRED TAX

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 30% (2022: 30%). The deferred tax asset and deferred tax (charge)/credit in profit or loss are attributable to the following:

GROUP AND BANK	1 January 2023	Prior year provisions over	Recognised in profit or loss	31 December 2023
	KShs '000	KShs '000	KShs '000	KShs '000
Arising from:		*(Note 14)*	*(Note 14)*	
Fair value losses	7,243	-	(7,243)	-
Leave pay provision	24,765	-	(2,612)	22,153
Other general provisions	2,004,510	(658)	185,060	2,188,912
Unrealised exchange loss	1,566	-	(4,876)	(3,310)
Deferred tax on bargain purchase	(115,229)	-	86,422	(28,807)
Excess capital allowance over depreciation	172,374	21	(14,154)	158,241
Net deferred tax asset	2,095,229	(637)	242,597	2,337,189

GROUP AND BANK	1 January 2022	Prior year provisions over	Recognised in profit or loss	31 December 2022
	KShs '000	KShs '000	KShs '000	KShs '000
Arising from:		*(Note 14)*	*(Note 14)*	
Fair value losses	7,243	-	-	7,243
Leave pay provision	14,143	-	10,622	24,765
Other general provisions	1,681,231	(1,934)	325,213	2,004,510
Unrealised exchange loss	10,341	-	(8,775)	1,566
Deferred tax on bargain purchase	(418,159)	-	302,930	(115,229)
Excess capital allowance over depreciation	171,905	-	469	172,374
Net deferred tax asset	1,466,704	(1,934)	630,459	2,095,229

26. DEPOSITS AND BALANCES FROM OTHER BANKS

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Bank current and demand accounts	629	10,543	629	10,543
Placements from other banks	650,833	7,896,822	650,833	7,896,822
	651,462	7,907,365	651,462	7,907,365

27. CUSTOMERS' DEPOSITS

Analysis of the Group and Bank's customer deposits by maturity:

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Current and demand accounts	15,308,410	11,518,074	15,320,686	11,532,306
Savings accounts	2,537,667	2,581,805	2,537,667	2,581,805
Call deposits	4,226,698	2,993,938	4,226,698	2,993,938
Term deposits	41,032,016	32,197,763	41,032,016	32,197,763
	63,104,791	49,291,580	63,117,067	49,305,812

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Payable within 90 days	47,757,430	36,136,636	47,769,706	36,150,868
Payable after 90 days and within 1 year	14,961,870	13,028,564	14,961,870	13,028,564
Payable after 1 year	385,491	126,380	385,491	126,380
	63,104,791	49,291,580	63,117,067	49,305,812

27. CUSTOMER'S DEPOSITS (Continued)

Concentration

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

	2023		2022	
	KShs' 000	%	KShs' 000	%
Agriculture	248,388	*	227,057	*
Building and construction	774,077	1%	783,477	2%
Business services	3,176,033	5%	2,593,691	5%
Consumer durables	35,679	*	15,631	*
Energy, electricity and water	358,654	1%	354,099	1%
Finance and insurance	8,044,261	13%	8,318,639	17%
Foreign trade	28,699	*	38,637	*
Manufacturing	4,464,853	7%	1,265,213	3%
Mining and quarrying	79,550	*	53,146	*
Others	4,048,957	6%	2,876,572	6%
Real estate	453,382	1%	574,689	1%
Social and personal services	37,036,794	59%	28,652,478	58%
Transport and communication	1,565,257	3%	728,132	1%
Trade restaurants and hotels	2,790,207	4%	2,810,119	6%
	63,104,791	100%	49,291,580	100%

*Percentage below 0.5%

28. AMOUNTS DUE TO CENTRAL BANK OF KENYA

Group and Bank:

	2023	2022
	KShs '000	KShs '000
CBK Repo	19,696,768	14,583,928
At 31 December 2023	19,696,768	14,583,928

Movement in amounts due to Central Bank of Kenya:

	2023	2022
	KShs' 000	KShs' 000
At 1 January	14,583,928	9,281,948
Amortisation of fair value gain classified under interest expense (note 8)	288,073	1,009,766
Reverse Repo acquired during the year	8,538,767	8,284,840
Repaid during the year	(3,714,000)	(3,992,626)
At 31 December	19,696,768	14,583,928

28. AMOUNTS DUE TO CENTRAL BANK OF KENYA (Continued)

The Bank assumed KShs 9,684 million as part of the liabilities acquired from the acquisition of business from Chase Bank Limited In Receivership. At the acquisition date, the fair value of the liability was determined based on the agreed terms and the change in fair value was factored into the determination of bargain purchase gain. Management assumed an interest rate of 10% and a repayment term of 5 years.

Subsequently, the liability is measured at amortized cost and the amortisation of the fair value gain is recorded as interest expense under note 8.

The amount is part of the liabilities due to Central Bank of Kenya secured by Government securities with a face value of KShs 24,834 million (2022: KShs 18,730 million).

29. OTHER LIABILITIES

	GROUP		BANK	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Outstanding bankers drafts and cheques	16,762	6,899	16,762	6,899
Sundry creditors	998,863	841,584	978,702	819,475
Leave pay accrual	73,843	82,549	73,843	82,549
	1,089,468	931,032	1,069,307	908,923

All other liabilities are expected to be settled within 12 months from the reporting date. Sundry creditors include direct and indirect taxes payable as at year end, accrued expenses and general provisions held.

30. LEASE LIABILITIES

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

GROUP AND BANK	2023	2022
	KShs'000	KShs'000
At 1 January	799,215	918,340
Additions	280,535	91,431
Prior period lease amendment	-	(5,298)
Disposals	(8,341)	(14,015)
Interest expense accruals (lease liability) during the year	73,552	86,074
Lease liability debits (rent paid) in the year	(290,441)	(277,317)
At 31 December	854,520	799,215
Current	90,121	103,636
Non-current	764,399	695,579
	854,520	799,215

The maturity analysis of lease liabilities is disclosed in note 5.3.3.

31. SHARE CAPITAL

a) Ordinary Share capital

	GROUP AND BANK Number of ordinary shares in thousands		GROUP AND BANK Issued and paid up capital	
	2023	2022	2023 KShs' 000	2022 KShs' 000
At start of year	51,715,000	51,715,000	2, 165,500	2,165,500
At end of year	51,715,000	51,715,000	2,165,500	2,165,500

There was no movement in share capital during the year. The authorized share capital is divided into 165,000,000 ordinary shares of KShs 10 each amounting to a value of KShs 1,650,000,000, and 51,550,000,000 class B shares of KShs. 0.01 amounting to KShs 515,500,000.

b) Shareholders' contribution pending allotment

	GROUP AND BANK	
	2023 KShs' 000	2022 KShs' 000
At 1 January	-	-
Additional capital pending allotment	471,000	-
31 December	471,000	-

This is share capital contribution by the shareholders to the Bank pending allotment of the Bank's shares. The allotment will be completed once the requisite documents have been filed with the registrar of Companies and share certificate issued to the shareholder.

c) Share premium

	GROUP AND BANK	
	2023 KShs' 000	2022 KShs' 000
At 1 January and 31 December	6,701,945	6,701,945

There was no movement in share premium during the year.

d) Preference share capital

	GROUP AND BANK Number of preference shares (thousands)		GROUP AND BANK Issued and fully paid	
	2023	2022	2023 KShs' 000	2022 KShs' 000
Issued and fully paid	10,000	10,000	100,000	100,000

31. SHARE CAPITAL (Continued)

d) Preference share capital (Continued)

The authorised preference shares are divided into 10,000,000 preference shares of KShs 10 each amounting to a value of KShs 100,000,000.

The non-cumulative preference shares confer the same voting rights as ordinary shares of the Bank. A non-cumulative annual preference dividend of 13% is payable by the Bank. These preference shares rank in priority to any dividend payable on the ordinary shares of the Bank.

In the event of winding up the Bank, the non-cumulative preference shares will be paid off in priority to ordinary shares but rank behind creditors of the Bank.

e) Fair value reserve of financial assets at fair value through other comprehensive income

This represents the cumulative gains and losses arising from revaluation of financial assets at fair value through other comprehensive income (Government securities measured at FVOCI) from cost to fair value based on the market values of the assets at the end of the reporting period. This is not distributable.
The disaggregation of changes of OCI by fair value reserve of financial assets at fair value through other comprehensive income in equity is shown below.

	GROUP AND BANK	
	2023	2022
	KShs' 000	KShs' 000
At start of the year	(1,123,126)	(261,241)
Fair value gain/(loss) in the year [Note 18(b)]	296,236	(861,885)
	(826,890)	(1,123,126)

f) Statutory loan loss reserve

Where impairment losses on loans and advances required by legislation exceed those computed under International Financial Reporting Standards, the excess is recognized as a statutory loan loss reserve and accounted for as an appropriation of retained profits and the reverse for reduction. These reserves are not distributable.

Impairment provisions required by legislation and computed as per the Central Bank of Kenya's prudential guidelines was KShs 8,029,571,000 (2022: KShs 7,705,185,000) while ECL impairment provisions computed as per International Financial Reporting Standards was KShs 6,514,581,000 (2022: KShs 6,013,211,000).

At 31 December 2023, a statutory loan loss reserve of KShs 1,514,991,000 (2022: KShs. 1,691,974,000) has been recognized.

32. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

a) Legal proceedings – Bank

There were a number of legal proceedings outstanding against the Bank as at 31 December 2023. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

Kenya Revenue Authority Demand

In June 2017, Kenya Revenue Authority (KRA) demanded penalties on taxes that were collected by Fidelity Commercial Bank (FCB) on behalf of its customers during the year 2016 under a service level agreement between KRA and FCB. These taxes which amounted to KShs. 239,289,236 were collected prior to the acquisition of FCB by SBM Bank (Kenya) Limited (SBMBK) and were paid in full by the latter upon take-over. KRA then raised a demand notice for penalties which had accrued and which were disputed by SBMBK at the time. KRA subsequently raised a revised penalty claim of Kshs 737 million, which was not agreeable to SBMK. SBMK declared a dispute in line with the provisions of the service level agreement. The Bank also filed a case in High Court seeking temporary protection against enforcement of the claim by KRA as well as seeking direction by the Court for the dispute to be resolved through Arbitration. The Bank was granted temporary protection by the High Court against enforcement of the claim by KRA. The case seeking to refer the matter to arbitration will be heard in May 2024. The directors, in consideration of the underlying facts about the claim, are confident that SBMBK is not liable and therefore no provision has been made in these financial statements in respect thereof. The possibility and extent to which an outflow of funds will be required to settle the matter will be dependent on the outcome of the ongoing court case and the decision of the arbitrator in the event that the Court directs the parties to resolve the dispute through arbitration.

b) Contractual off-statement of financial position of financial liabilities

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

	GROUP AND BANK	
	2023	2022
Contingencies related to:	KShs' 000	KShs' 000
Acceptances and letters of credit	2,865,010	1,671,855
Letters of guarantee	2,992,340	1,975,446
Forwards and swaps	13,620,680	12,325,947
At end of the year	19,478,030	15,973,248

The table below shows the movement in ECL provisions on off balance sheet assets during the year;

	GROUP AND BANK	
	2023	2022
	KShs' 000	KShs' 000
At 1 January	6,652	21,717
Net write back of ECL	(427)	(15,065)
At 31 December	6,225	6,652

ECL provisions of KShs 427,000 (2022: Kshs 15,065,000) were written back in the year. All off balance sheet assets have been categorized under stage 1.

Nature of contingent liabilities

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

32. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

b) Contractual off-statement of financial position of financial liabilities (continued)

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

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

Forward contracts are arrangements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. The fair values of the respective currency forwards are carried on the face of the statement of financial position.

c) Assets pledged as security

As at 31 December 2023, Government securities with a face value of KShs 24,834 million were held under lien in favor of the Central Bank of Kenya Limited (2022: KShs. 18,730 million).

33. DIVIDENDS

There were no dividends paid in the current year (2022: nil).

34. NOTES TO THE STATEMENT OF CASH FLOWS

a) Additional cash flow information

	GROUP		BANK	
	2023	2022	2023	2022
	KShs'000	KShs'000	KShs'000	KShs'000
Other non-cash items included in profit before tax				
Depreciation on property and equipment	173,351	222,775	173,351	222,775
Amortisation of intangible assets	110,657	58,905	110,657	58,905
Depreciation on right-of-use asset	211,497	209,312	211,497	209,312
Interest income	(9,580,666)	(8,097,259)	(9,580,666)	(8,097,259)
Interest expense	5,769,034	4,923,055	5,769,034	4,923,055
Unrealised foreign exchange income	(33,102)	(27,290)	(33,102)	(27,290)
Credit impairment charges	274,545	(287,715)	274,545	(287,715)
Profit/(loss) on sale of property and equipment	4,195	(6,030)	4,195	(6,030)
Non-cash items included in profit before tax	(3,070,489)	(3,004,247)	(3,070,489)	(3,004,247)
Changes in operating assets:				
Loans and advances to customers	(6,594,835)	(8,430,084)	(6,594,835)	(8,430,084)
Investment in government securities	116,728	967,509	116,728	967,509
Movement in investment securities	(1,227)	-	(1,227)	-
Cash and balances with Central Bank of Kenya	(317,229)	1,128,552	(317,229)	1,128,552
Other assets	(891,441)	443,837	(891,441)	443,620
Net (increase)/decrease in operating assets	(7,688,004)	(5,890,186)	(7,688,004)	(5,890,403)
Changes in operating liabilities:				
Customer deposits	13,553,013	(10,578,010)	13,551,057	(10,578,010)
Ot her liabilities	213,741	(293,932)	215,689	(293,932)
Net increase/(decrease) in operating liabilities	13,766,754	(10,871,942)	13,766,746	(10,871,942)

34. NOTES TO THE STATEMENT OF CASH FLOWS(CONTINUED)

b) Restatement of the statement of cash flows

The cash flow statement for the comparative period ended 31 December 2023 has been restated to make enhancement as required by IAS 7. These restatements were in respect of disclosure of interest received and interest paid which previously were omitted. In addition, impairment provision has also been disclosed in as non-cash items adjustment to profit.

Consequently, movement in loans and advances (changes in operating assets) and movement in deposits (changes in operating liabilities) were also adjusted to incorporate impacts of the matters as discussed in the previous paragraph.

The effect of these restatement is as follows:

	As reported	Reclassification adjustment	As reclassified
	2022		2021
	KShs '000	KShs '000	KShs '000
Other non-cash items included in profit before tax	1,580,802	(4,585,049)	(3,004,247)
Change in operating assets	(7,917,899)	2,027,496	(5,890,403)
Change in operating liabilities	(11,052,778)	180,836	(10,871,942)
Cash on operations (others)	(584,359)	2,461,931	1,877,572
Net cash flows from operating activities	(17,974,234)	85,431	(17,888,803)
Net foreign exchange difference	-	(85,431)	(85,431)
	========	========	========

The restatement had no impact on the aggregate cash and cash equivalents for the year ended 31 December 2022.

c) Cash and cash equivalents
For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

GROUP

	2023	2022	Changes during the year
	KShs' 000	KShs' 000	KShs'000
Cash and cash equivalents with central Bank [Note 16(a)]	3,415,758	2,833,798	581,960
Placements with other banking institutions [Note 16(b)]	4,630,797	298,001	4,332,796
Less: Restricted balances (Cash Reserve Ratio) [Note 16(a)]	(1,671,977)	(1,354,748)	(317,229)
Less: Deposits due to other banking institutions (Note 26)	(651,462)	(7,907,365)	7,255,903
	5,723,116	(6,130,314)	11,853,430

BANK

	2023	2022	Changes during the year
Cash and cash equivalents [Note 16(a)]	3,415,758	2,833,798	581,960
Placements with other banking institutions [Note 16(b)]	4,630,797	298,001	4,332,796
Less: Restricted balances (cash reserve ratio) [Note 16(a)]	(1,671,977)	(1,354,748)	(317,229)
Less: Deposits due to other banking institutions (Note 26)	(651,462)	(7,907,365)	7,255,903
	5,723,116	(6,130,314)	11,853,430

34. RELATED PARTY TRANSACTIONS AND BALANCES

The parent company is SBM Africa Holdings Limited, and ultimate holding company is SBM Holdings Limited, both incorporated in Mauritius.

Included in loans and advances and customer deposits are amounts advanced to/received from certain directors and companies in which directors are involved either as shareholders or directors (related companies).

a) Bank balances and placement with other banking institutions

	GROUP AND BANK	
	2023	2022
	KShs' 000	KShs' 000
Current account balances		
SBM Bank (Mauritius) Limited	16,944	17,789
SBM Bank (India) Limited	6,653	5,710
SBM Bank (Madagascar) Limited	963	-
	24,560	23,499

35. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

b) Loans and advances to related parties

	Related companies		Principal officers		Other employees	
	2023	2022	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Outstanding loans and advances						
At 1 January	-	-	174,310	195,197	1,525,421	1,990,502
Net movement during the year	-	-	(6,416)	(20,887)	366,327	(465,081)
At 31 December	-	-	167,894	174,310	1,891,748	1,525,421
Interest income	-	-	18,905	17,257	93,811	108,081

All the loans and advances to related parties are performing.

Interest income earned from related parties in 2023 was KShs 112,716,000 (2022: KShs 125,338,000). The effective interest rate was 5.5 % (2022: 7.2%) with loan tenors stretching to a maximum of 20 years.

Credit facilities to key management personnel and executive directors are as per their contract of employment. All other transactions with key management personnel and directors, whether credit facilities, deposits or purchase of goods and services, are at market terms and conditions and will be settled in cash.

All credit facilities with entities considered as related parties disclosed above are at market terms and conditions and will be settled in cash. Credit facilities are secured except for credit card advances and some personal loans which are granted under an unsecured loan scheme in the normal course of business.

c) Deposits from related parties

	Non-Executive Directors		Related companies		Principal officers		Other employees	
	2023	2022	2023	2022	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Deposits								
At start of year	162,220	19,133	14,232	14,234	43,960	30,837	120,594	192,996
Deposits received during year	366,908	319,477	-	-	158,774	167,534	1,332,724	1,368,823
Interest paid	12,024	9,490	-	-	2,642	2,699	5,045	6,114
Withdrawals during year	(419,824)	(185,880)	(1,956)	(2)	(158,943)	(157,110)	(1,559,761)	(1,447,339)
At end of the year	121,328	162,220	12,276	14,232	46,433	43,960	(101,398)	120,594

The weighted average interest rate for deposits was 6.9 % (2022: 8%).

35. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

d) Directors' benefits and other remuneration

	GROUP AND BANK	
	2023	2022
	KShs' 000	KShs' 000
Salaries	98,297	89,806
Post-employment benefits	5,509	4,782
Fees [note 12(a)]	15,616	14,221
	119,422	108,809

e) Key personnel compensation

	GROUP AND BANK	
	2023	2022
	KShs' 000	KShs' 000
Salaries and other employment benefits	98,297	89,806
Pension and NSSF	5,509	4,782
	103,806	94,588

36. CAPITAL MANAGEMENT

The Central Bank of Kenya sets and monitors capital requirements for the Banking industry as a whole. The statutory minimum core capital is KShs 1 billion. In implementing current capital requirements, The Central Bank of Kenya requires the Bank to maintain a 14.5% prescribed ratio of total capital to total risk-weighted assets. The Bank has met this requirement.

The Bank's regulatory capital is analysed into two tiers:

i. Tier 1 capital, which includes ordinary share capital, share premium, 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.
ii. Tier 2 capital, which includes 25% of asset revaluation reserves which have received prior Central Bank of Kenya approval, subordinated debt and other capital instruments approved by Central Bank of Kenya.

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 percent 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.

The Bank's policy is to maintain 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 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. The Bank has complied with all externally imposed capital requirements throughout the year.

36. CAPITAL MANAGEMENT (Continued)

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

	Statement of financial position nominal amount		Risk weighted amount	
	2023	2022	2023	2022
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Cash and bank balances with Central Bank and other banking institutions	3,415,758	2,833,798	-	-
Placements with other banking institutions	4630,797	298,001	926,182	59,600
Loans and advances to customers	45,590,301	38,416,240	41,425,730	35,435,028
Financial assets at fair value through profit and loss	742,837	386,317	-	-
Government securities	35,242,401	35,359,129	-	-
Investment securities	2,801	1,574	2,801	1,574
Other assets	1,034,814	786,143	1,034,814	786,143
Property and equipment	862,318	554,502	862,318	554,502
Intangible assets	291,480	319,488	291,480	319,488
Right-of-use assets	768,739	707,372	-	-
Deferred tax assets	2,337,189	2,095,229	2,337,189	2,095,229
Total assets (a)	94,919,435	81,757,793	46,880,514	39,251,564
Off statement of financial position:				
Credit related commitments and other off balance sheet items (b)	19,478,030	15,973,248	216,530	248,825
Total balance sheet and off balance sheet risk weighted assets (a+b)	114,397,465	97,731,041	47,097,044	39,500,389
Market risk qualifying assets (c)	(2,801)	(1,574)	(2,801)	(1,574)
Adjusted credit risk weighted assets (a+b+c)	114,394,664	97,729,467	47,094,243	39,498,815
Total market risk weighted assets (d)	1,911,299	6,373,622	1,911,299	6,373,622
Total risk weighted assets for operational risk (e)	7,869,991	8,510,392	7,869,991	8,510,392
Total risk weighted assets (a+b+c+d+e)	124,175,954	112,613,481	56,875,533	54,382,829

Items a,b,c,d and e are computed as per Central Bank of Kenya prudential guidelines on risk weighted assets.

35. CAPITAL MANAGEMENT (Continued)

	2023 Total	2022 Total
	KShs' 000	KShs' 000
Tier 1 - core capital		
Share capital	2,636,500	2,165,500
Share premium	6,701,945	6,701,945
Preference share capital	100,000	100,000
Accumulated losses	(1,343,686)	(1,671,459)
	8,094,759	7,295,986
Tier 2 capital - supplementary capital		
Statutory credit risk reserve (maximum 1.25% of TRWA)	710,944	679,785
	710,944	679,785
Total regulatory capital	8,805,703	7,975,771

Capital adequacy requirement calculation

Risk weighted amounts for loans and advances to customers are stated net of impairment losses. These balances have also been offset against fixed deposits and short term deposits placed by customers as securities.

	Actual ratios		Minimum requirement	
	2023	2022	2023	2022
Core capital to total risk weighted assets ratio	14.23%	13.42%	10.50%	10.50%
Core capital to deposits ratio	12.82%	14.80%	8.00%	8.00%
Total capital to total risk weighted assets ratio	15.48%	14.67%	14.5%	14.50%
	======	======	======	======

The Bank has complied with all the capital statutory prudential guidelines, while also making an allowance for business fluctuations.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance,Risk and Credit, and is subject to review by the Group 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 Group to particular operations or activities, it is not the sole basis used for decision-making.When need for more capital arises,the Group explores various recapitalization options including injection of share capital,raising tier capital as well as optimization of the total risk weighted assets.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 Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The tables below show an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. Trading assets and liabilities have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products. With regard to loans and advances to customers, the Group uses the same basis of expected repayment behavior that was used for estimating the EIR. Issued debt reflect the contractual coupon amortisations.

GROUP

At 31 December 2023	Within 12 months KShs'000	After 12 months KShs'000	Total KShs'000
ASSETS			
Cash and bank balances with Central Bank and other banking institutions	3,415,758	-	3,415,758
Placements and balances with other banking institutions	4,630,797	-	4,630,797
Loans and advances to customers	15,952,943	29,637,358	45,590,301
Financial assets at fair value through profit or loss	-	742,837	742,837
Government securities	1,481,684	33,760,717	35,242,401
Investment securities	2,841	-	2,841
Other assets	1,034,815	-	1,034,815
Property and equipment	-	862,318	862,318
Intangible assets	-	291,479	291,479
Right-of-use assets	233,554	535,185	768,739
Deferred tax asset	-	2,337,189	2,337,189
	26,752,392	68,167,083	94,919,475
LIABILITIES			
Deposits and balances from other banks	651,462	-	651,462
Customers' deposits	62,719,299	385,492	63,104,791
Lease liabilities	248,014	606,506	854,520
Current tax liabilities	4,614	-	4,614
Other liabilities	1,089,468	-	1,089,468
Amounts due to Central Bank of Kenya	18,496,768	1,200,000	19,696,768
Financial liabilities at fair value through profit or loss	-	742,837	742,837
TOTAL LIABILITIES	83,209,625	2,934,835	86,144,460
NET	(56,457,233)	65,232,248	8,775,015

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Continued)

GROUP

At 31 December 2022	Within 12 months KShs'000	After 12 months KShs'000	Total KShs'000
ASSETS			
Cash and bank balances with Central Bank and other banking institutions	2,833,798	-	2,833,798
Placements and balances with other banking institutions	298,001	-	298,001
Loans and advances to customers	12,172,936	26,243,304	38,416,240
Financial assets at fair value through profit or loss		386,317	386,317
Government securities	765,097	34,594,032	35,359,129
Investment securities	1,614	-	1,614
Other assets	786,143	-	786,143
Property and equipment	-	554,502	554,502
Intangible assets	-	319,488	319,488
Right-of-use assets	96,833	610,539	707,372
Deferred tax asset	-	2,095,229	2,095,229
	16,954,422	64,803,411	81,757,833
LIABILITIES			
Deposits and balances from other banks	7,907,365	-	7,907,365
Customers' deposits	49,165,200	126,380	49,291,580
Lease liabilities	103,636	695,579	799,215
Current tax liabilities	1,399	-	1,399
Other liabilities	931,032	-	931,032
Amounts due to Central Bank of Kenya	8,776,682	5,807,246	14,583,928
Financial liabilities at fair value through profit or loss	-	386,317	386,317
TOTAL LIABILITIES	66,885,314	7,015,522	73,900,836
NET	(49,930,892)	57,787,889	7,856,997

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Continued)

BANK

At 31 December 2023	Within 12 months KShs'000	After 12 months KShs'000	Total KShs'000
ASSETS			
Cash and bank balances with Central Bank and other banking institutions	3,415,758	-	3,415,758
Placements and balances with other banking institutions	4,630,797	-	4,630,797
Loans and advances to customers	15,952,943	29,637,358	45,590,301
Financial assets at fair value through profit or loss	-	742,837	742,837
Government securities	1,481,684	33,760,717	35,242,401
Investment securities	2,801	-	2,801
Other assets	1,034,815	-	1,034,815
Property and equipment	-	862,318	862,318
Intangible assets	-	291,479	291,479
Right-of-use assets	233,554	535,185	768,739
Deferred tax asset	-	2,337,189	2,337,189
	26,752,352	68,167,083	94,919,435
LIABILITIES			
Deposits and balances from other banks	651,462	-	651,462
Customers' deposits	62,731,575	385,492	63,117,067
Lease liabilities	248,014	606,506	854,520
Current tax liabilities	4,614	-	4,614
Other liabilities	1,069,307	-	1,069,307
Amounts due to Central Bank of Kenya	18,496,768	1,200,000	19,696,768
Financial liabilities at fair value through profit or loss	-	742,837	742,837
TOTAL LIABILITIES	83,201,740	2,934,835	86,136,575
NET	(56,449,388)	65,232,248	8,782,860

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Continued)

BANK

At 31 December 2022	Within 12 months KShs'000	After 12 months KShs'000	Total KShs'000
ASSETS			
Cash and bank balances with Central Bank and other banking institutions	2,833,798	-	2,833,798
Placements and balances with other banking institutions	298,001	-	298,001
Loans and advances to customers	12,172,936	26,243,304	38,416,240
Financial assets at fair value through profit or loss		386,317	386,317
Government securities	765,097	34,594,032	35,359,129
Investment securities	1,574		1,574
Current tax assets	-	-	-
Other assets	786,143	-	786,143
Property and equipment	-	554,502	554,502
Intangible assets	-	319,488	319,488
Right-of-use assets	96,833	610,539	707,372
Deferred tax asset	-	2,095,229	2,095,229
	16,954,382	64,803,411	81,757,793
LIABILITIES			
Deposits and balances from other banks	7,907,365	-	7,907,365
Customers' deposits	49,179,432	126,380	49,305,812
Lease liabilities	103,636	695,579	799,215
Current tax liabilities	1,399	-	1,399
Other liabilities	908,923	-	908,923
Amounts due to Central Bank of Kenya	8,776,682	5,807,246	14,583,928
Financial liabilities at fair value through profit or loss	-	386,317	386,317
TOTAL LIABILITIES	66,877,437	7,015,522	73,892,959
NET	(49,923,055)	57,787,889	7,864,834

38. FAIR VALUE MEASUREMENT

As explained in note 3.5, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique. The hierarchy of valuations techniques has also been explained in note 3.5.

An analysis of financial instruments recorded at fair value by level of the fair value hierarchy has been tabled in note 6.3.

38. FAIR VALUE MEASUREMENT (Continued)

38.1 Valuation techniques

Valuation techniques applied for each of the financial instruments are as detailed below;

Government debt securities

Government debt securities are financial instruments issued by Sovereign Governments and include both long term bonds and short-term bills with fixed or floating rate interest payments. These instruments are generally highly liquid and traded in active markets resulting in a Level 1 classification.

Debt securities issued by financial institutions and other debt securities

Whilst most of these instruments are standard fixed or floating rate securities, some may have more complex coupon or embedded derivative characteristics. The Bank uses active market prices when available, or other observable inputs in discounted cash flow models to estimate the corresponding fair value. The corporate bonds tend to be highly liquid and traded in active markets resulting in a level 1 classification.

Equity instruments

Equity instruments held are actively traded on public stock exchanges with readily available active prices on a regular basis. These instruments are classified as Level 1.

Loans and receivables at fair value through profit or loss

For loans and receivables designated at FVPL and mandatorily required to be measured at FVPL (those that did not meet the SPPI criteria), a discounted cash flow model is used based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. Classification between Level 2 and Level 3 is determined based on whether the assessment of credit quality is based on observable or unobservable data.

Foreign exchange contracts

Foreign exchange contracts include open spot contracts, foreign exchange forward and swap contracts and over the counter foreign exchange options. These instruments are valued by either observable foreign exchange rates, observable or calculated forward points and option valuation models. With the exception of contracts where a directly observable rate is available which are disclosed as Level 1, the Bank classifies foreign exchange contracts as Level 2 financial instruments when no unobservable inputs are used for their valuation or the unobservable inputs used are not significant to the measurement (as a whole).

39. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The table below sets out the Group's classification of each class of financial assets and liabilities. The amounts in the table are the carrying amounts of the financial instruments at the reporting date:

GROUP

At 31 December 2023

Financial assets	Amortised cost KShs '000	At fair value through profit or loss KShs '000	At fair value through other comprehensive income KShs '000	Financial liabilities measured at amortised cost KShs '000	Total KShs '000
Cash and Bank balances with Central Bank of Kenya	3,415,758	-	-	-	3,415,758
Placements and balances with other banking institutions	4,630,797	-	-	-	4,630,797
Loans and advances to customers	45,590,301	-	-	-	45,590,301
Government securities	31,180,434	-	4,061,967	-	35,242,401
Financial assets at fair value through profit or loss	-	742,837	-	-	742,837
Investment securities	-	2,841	-	-	2,841
Other assets	1,034,815	-	-	-	1,034,815
Total financial assets	85,852,105	745,678	4,061,967	-	90,659,750
Financial liabilities					
Deposits and balances from other banks	-	-	-	651,462	651,462
Customers' deposits	-	-	-	63,104,791	63,104,791
Financial liabilities at fair value through profit or loss	-	742,837	-	-	742,837
Other liabilities	-	-	-	1,089,468	1,089,468
Lease liabilities	-	-	-	854,520	854,520
Amounts due to Central Bank of Kenya	-	-	-	19,696,768	19,696,768
Total financial liabilities	-	742,837	-	85,397,009	86,139,846

39. CLASSIFICATION OF FINANCIAL INSTRUMENTS (Continued)

GROUP

At 31 December 2022

Financial assets	Amortised cost KShs '000	At fair value through profit or loss KShs '000	At fair value through other comprehensive income KShs '000	Financial liabilities measured at amortised cost KShs '000	Total KShs '000
Cash and Bank balances with Central Bank of Kenya	2,833,798	-	-	-	2,833,798
Placements and balances with other banking institutions	298,001	-	-	-	298,001
Loans and advances to customers	38,416,240	-	-	-	38,416,240
Government securities	20,986,908	-	14,372,221	-	35,359,129
Financial assets at fair value through profit or loss	-	386,317	-	-	386,317
Investment securities	-	1,614	-	-	1,614
Other assets	786,413	-	-	-	786,413
Total financial assets	63,321,360	387,931	14,372,221	-	78,081,512
Financial liabilities					
Deposits and balances from other banks	-	-	-	7,907,365	7,907,365
Customers' deposits	-	-	-	49,291,850	49,291,850
Financial liabilities at fair value through profit or loss	-	386,317	-	-	386,317
Other liabilities	-	-	-	931,032	931,032
Lease liabilities	-	-	-	799,215	799,215
Amounts due to Central Bank of Kenya	-	-	-	14,583,928	14,583,928
Total financial liabilities	-	386,317	-	73,513,390	73,899,707

39. CLASSIFICATION OF FINANCIAL INSTRUMENTS (Continued)

BANK
At 31 December 2023

	Amortised cost KShs '000	At fair value through profit or loss KShs '000	At fair value through other comprehensive income KShs '000	Financial liabilities measured at amortised cost KShs '000	Total KShs '000
Financial assets					
Cash and Bank balances with Central Bank of Kenya	3,415,758	-	-	-	3,415,758
Placements and balances with other banking institutions	4,630,797	-	-	-	4,630,797
Loans and advances to customers	45,590,301	-	-	-	45,590,301
Government securities	31,180,434	-	4,061,967	-	35,242,401
Financial assets at fair value through profit or loss	-	742,837	-	-	742,837
Investment securities	-	2,801	-	-	2,801
Other Assets	1,034,815	-	-	-	1,034,815
Total financial assets	85,852,105	745,638	4,061,967	-	90,659,710
Financial liabilities					
Deposits and balances from other banks	-	-	-	651,462	651,462
Customers' deposits	-	-	-	63,117,067	63,117,067
Other liabilities	-	742,837	-	-	742,837
Financial liabilities at fair value through profit or loss	-	-	-	1,069,307	1,069,307
Lease liabilities	-	-	-	854,520	854,520
Amounts due to Central Bank of Kenya	-	-	-	19,696,768	19,696,768
Total financial liabilities	-	742,837	-	85,389,124	86,131,961

39. CLASSIFICATION OF FINANCIAL INSTRUMENTS (Continued)

BANK

At 31 December 2022

	Amortised cost KShs '000	At fair value through profit or loss KShs '000	At fair value through other comprehensive income KShs '000	Financial liabilities measured at amortised cost KShs '000	Total KShs '000
Financial Assets					
Cash and Bank balances with Central Bank of Kenya	2,833,798	-	-	-	2,833,798
Placements and balances with other banking institutions	298,001	-	-	-	298,001
Loans and advances to customers	38,416,240	-	-	-	38,416,240
Government securities	20,986,908	-	14,372,221	-	35,359,129
Financial assets at fair value through profit or loss	-	386,317	-	-	386,317
Investment securities	-	1,574	-	-	1,574
Other Assets	786,413	-	-	-	786,413
Total financial assets	63,321,360	387,891	14,372,221	-	78,081,472
Financial liabilities					
Deposits and balances from other banks	-	-	-	7,907,365	7,907,365
Customers' deposits	-	-	-	49,305,812	49,305,812
Other liabilities	-	-	-	908,923	908,923
Financial liabilities at fair value through profit or loss	-	386,317	-	-	386,317
Lease liabilities	-	-	-	799,215	799,215
Amounts due to Central Bank of Kenya	-	-	-	14,583,928	14,583,928
Total financial liabilities	-	386,317	-	73,505,243	73,891,560

40. EVENTS AFTER REPORTING PERIOD

At the date of approving these financial statements, the directors are not aware of material events after the end of the reporting period that would require recognition or disclosure in these financial statements.