BANK OF AFRICA KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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BOARD OF DIRECTORS

Name		Nationality
Ambassador Dennis Awori*	Chairman, Non-Executive Director	Kenyan
Amine Bouabid	Non-Executive Director	Moroccan
Abdelkabir Bennani	Non-Executive Director	Moroccan
Eunice Mbogo* (resigned 12 June 2023)	Non-Executive Director	Kenyan
Ghali Lahlou (resigned 4 March 2024)	Non-Executive Director	Moroccan
Nita Shah* (appointed on 25 January 2023)	Non-Executive Director	Kenyan
Kennedy Wanderi* (appointed on 25 January 2023)	Non-Executive Director	Kenyan
Kobena John Andah (28 February 2024)	Non-Executive Director	Ghanaian
Ronald Marambii	Managing Director	Kenyan

*Independent Non-Executive Directors

COMPANY SECRETARY

Anne Wanjiru Gitau
CPS (K)
Reg No. 2497
BOA House
School Lane, Westlands
P.O. BOX 69562
00400 Nairobi, Tom Mboya

REGISTERED OFFICE

BOA House
L. R. No 1870/III/598
School Lane, Westlands
P.O. Box 69562
00400 Nairobi, Tom Mboya

INDEPENDENT AUDITOR

KPMG Kenya
8th Floor, ABC Towers
ABC Place, Waiyaki Way
P.O. Box 40612
00100 Nairobi, GPO

Bank of Africa Kenya Limited
Report of the Directors
For the year ended 31 December 2023

The Directors are pleased to submit their annual report together with the audited financial statements of Bank of Africa Kenya Limited ("the Bank") for the year ended 31 December 2023 in accordance with section 22 of the Banking Act and Section 650(1) of the Kenyan Companies Act 2015. The report discloses the state of affairs of the Bank.

1. Principal activities

The Bank is engaged in the business of commercial banking and provision of related services and is licensed under the Banking Act and regulated by the Central Bank of Kenya.

2. Results

The results of the Company for the year are set out on pages 18.

3. Dividend

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2023 (2022: Nil).

4. Directors

The Directors who served during the year ended 31 December 2023 and up to the date of this report are as set out in page 1.

5. Going concern

The Bank made a profit of KShs 280,966,000 during the year ended 31 December 2023 (2022: KShs 195,070,000). The Bank's negative retained earnings reduced during the year due to growth in profitability to KShs 4,853,164,000 (2022 a deficit of KShs 5,098,769,000). As at that date, the Bank was compliant on all capital ratios other than investment in land and buildings to core capital ratio.

6. Business review

Please see pages 7 to 13 for a detailed analysis of the above.

7. Relevant audit information

The Directors in office at the date of this report confirm that:

- There is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all the steps that they ought to have taken as a Director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

8. Auditor

The Company's auditor, KPMG Kenya, continue in office in accordance with Section 719 of the Kenyan Companies Act, 2015, and subject to Section 24(1) of the Banking Act (Cap 488).

9. Indemnity

The Directors of the Company shall be indemnified out of the Bank's assets against all liability incurred by them in which relief is granted to them by the court. This is provided in the best market practice to provide the Directors in undertaking their duties in such capacity.

10. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Board of Directors held on 13 March 2024

BY ORDER OF THE BOARD

Anne Gitau
Company Secretary

ANNE. W. GITAU CPS (K)
Reg. No.
2497

Date: 13 March 2024

Corporate governance outlines the way companies are run and managed, the role of the Board of Directors and the framework of internal controls. The Board of Bank of Africa Kenya Limited (BOA) is keen on ensuring the adoption of good corporate governance.

THE BOARD

As at 31 December 2023, the Board of Directors comprised of the Chairman, the Managing Director, and five Non-Executive Directors. All Directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, each Director receives information about the Bank and is advised of the legal, regulatory and other obligations of a Director.

The full Board meetings were held as shown in the table below. In the event that a Director cannot attend a Board Meeting, an acceptable apology with a valid reason is sent to the Chairman in advance of the meeting. Directors are given appropriate information that guides their control over strategic, financial, operational, compliance and governance matters. The Managing Director is in charge of the day-to-day operations while the Board oversees the performance of the executive management.

The following table shows the number of Board meetings held during the year and the attendance of individual Directors.

Board meeting membership and attendance in 2023					
	6 February 2023	12 June 2023	15 September 2023	9 November 2023	6 December 2023
Ambassador Dennis Awori	√	√	√	√	√
Amine Bouabid	√	√	√	√	√
Abdelkabir Bennani	√	√	√	√	√
Eunice Mbogo	√	√	N/A	N/A	N/A
Ghali Lahlou	√	√	√	AP	AP
Ronald Marambii	√	√	√	√	√
Nita Shah	√	√	√	√	√
Kennedy Wanderi	√	√	√	√	√

√ – Attended, AP-Apology, N/A-Not Applicable

BOARD COMMITTEES

To increase efficiency and allow deeper focus on the management of key functions of the Bank, the Board has established the following four main Committees: -

The Board Audit Committee:

The main role of the Board Audit Committee is to provide independent oversight of the Bank's financial reporting and internal control systems to ensure that checks and balances within the Bank are in place. The Committee also reviews the performance and findings of the internal and external auditors, findings of the regulatory authorities, and recommends appropriate remedial action. The Committee has direct access to the Company's internal and external auditors. In the year 2023, the Members of this Committee were Mr. Kennedy Wanderi (Chairperson), Mr. Abdelkabir Bennani, Ms. Eunice Mbogo (resigned 12th June 2023) and Ms. Nita Shah.

Board Audit Committee Meeting membership and attendance in 2023				
	3 February 2023	30 May 2023	8 September 2023	24 November 2023
Kennedy Wanderi	√	√	√	√
Abdelkabir Bennani	√	√	√	√
Eunice Mbogo	√	√	N/A	N/A
Nita Shah	√	√	√	√

√ – Attended

The Board Credit Committee:

The overall responsibility of the Board Credit Committee is to approve and review the credit risk strategy and credit risk policies of the Bank. The Committee sets the acceptable risk appetite and tolerance that the Bank is willing to engage. In the year 2023, the Members of this Committee were Ms. Nita Shah (Chairperson), Mr. Abdelkabir Bennani, Ms. Eunice Mbogo (resigned 12 June 2023), Mr. Kennedy Wanderi and Mr. Ghali Lahlou.

The Board Risk Management Committee:

This Committee's main responsibility is to assist the Directors in discharging their responsibility of ensuring quality, integrity and reliability of the Bank's enterprise-wide risk management and corporate accountability and associated risks in terms of management, assurance and reporting. The Committee also assists in fostering an effective risk management culture throughout the Bank as well as assisting the Board in fulfilling its oversight responsibility relating to compliance with legal and regulatory requirements and the Bank's policies. In the year 2023, the Members of this Committee were Ms. Nita Shah (Chairperson), Ms. Eunice Mbogo (resigned 12 June 2023), Mr. Abdelkabir Bennani, Mr. Ghali Lahlou and Mr. Kennedy Wanderi.

The Board Nomination, Compensation and Human Resources Committee:

The purpose of this Committee is to enable the Board to discharge its responsibilities in relation to the nomination of appropriate directors to the Board and its committees, the assessment of the performance of the Board, Directors (including the Executive Directors) and Senior Management, succession planning for Directors and Senior Management, remuneration, welfare, retention and human capital development policies and programs for the Directors and all staff of the Bank. In 2023, the Members of this Committee were Mr. Kennedy Wanderi (Chairperson), Ms.Eunice Mbogo (resigned 12 June 2023), Mr. Abdelkabir Bennani, Mr. Ghali Lahlou and Ms. Nita Shah.

At each quarterly Board Meeting, the Chairpersons of the various Board Committees report to the Board on the highlights of the Committees' deliberations and escalate to the Board all matters requiring its consideration and approval.

DIRECTORS' REMUNERATION

The remuneration of all Directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Information on the aggregate amount of emoluments and fees paid to Directors is disclosed in Note 16 (g) of the financial statements.

BOARD PERFORMANCE EVALUATION

Under the Prudential Guidelines issued by the Central Bank of Kenya, the Board is responsible for ensuring that an evaluation of its performance, that of its Committees and individual Directors is done. The results of such an evaluation are to be provided to the Central Bank of Kenya.

In a process led by the Board Chairman and supported by the Company Secretary, a comprehensive evaluation of the performance of the Board the Board Committees and the Board Chairman for the year 2023 was conducted in the last quarter of 2023, with the aim of assessing capacity and effectiveness relative to the mandates, and identifying any challenges that could form a basis for action in the coming year.

The Directors, following the evaluation exercise, agreed that the following are some of the areas that the Board shall be keenly monitoring in 2024, and subsequent years:

a) Macro-economic situation and control of risks
b) Non-Performing Loans
c) Compliance with AML regulations
d) Digitization/Automation of Processes
e) Capital adequacy and business growth

GOING CONCERN

The Board ensures that the Bank has adequate resources to continue in business into the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

INTERNAL CONTROLS

The Board has the responsibility of ensuring that adequate systems of internal control that provide reasonable assurance of effective and efficient operations are in place.

The Board strives to achieve a strong control environment including the evaluation of non-financial risks guided by written policies and procedures to identify and manage risk.

The Bank's Internal Audit Department which is independent, reports to the Board Audit Committee and provides an independent confirmation that BOA Group business standards, policies and procedures are being complied with.

Business performance review

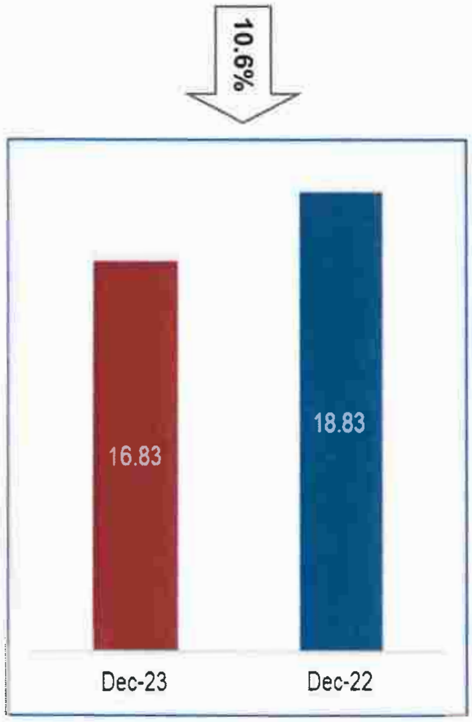
Statement of Profit or Loss

	31-Dec-23 KShs'000 Audited	31-Dec-22 KShs'000 Audited	31-Dec-21 KShs'000 Audited	31-Dec-20 KShs'000 Audited	31-Dec-19 KShs'000 Audited
Interest income	3,958,163	3,230,260	2,706,716	2,689,198	2,926,200
Interest expense	(1,839,685)	(1,479,150)	(1,343,514)	(1,688,763)	(1,929,093)
Net interest income	**2,118,478**	**1,751,110**	**1,363,202**	**1,000,435**	**997,107**
Non-interest income	1,220,757	1,277,318	1,078,334	1,008,864	780,927
Operating income	**3,339,235**	**3,028,428**	**3,028,428**	**2,009,299**	**1,778,034**
Expenses	(2,214,087)	(2,149,941)	(2,038,236)	(2,258,513)	(2,582,303)
Impairment on loans and advances and other financial assets	(749,332)	(595,899)	(113,686)	(430,655)	(2,395,761)
Operating expenses	**(2,963,419)**	**(2,745,840)**	**(2,151,922)**	**(2,689,168)**	**(4,978,064)**
Profit/(loss) from operations	**375,816**	**282,588**	**876,506**	**(679,869)**	**(3,200,030)**
Share of profit of associates	-	-	-	-	270,354
Profit/(loss) before income tax	**375,816**	**282,588**	**876,506**	**(679,869)**	**(2,929,676)**
Income tax (expense)/credit	(94,850)	(87,518)	(71,441)	286,404	889,838
Profit/(loss) for the year	**280,966**	**195,070**	**805,065**	**(393,465)**	**(2,039,838)**

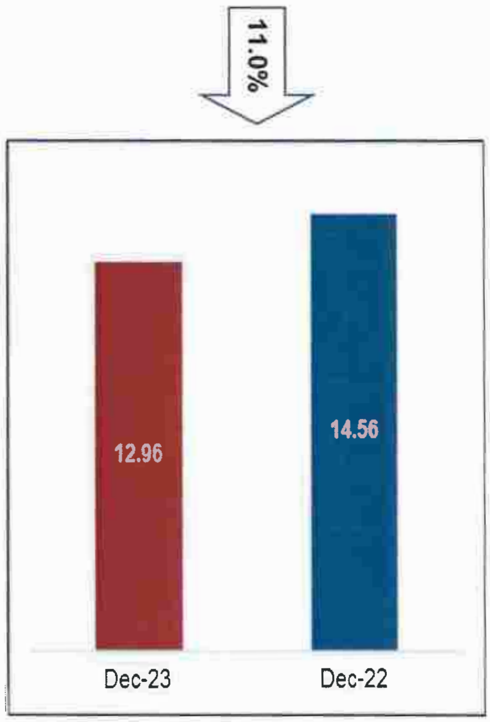
Statement of Financial Position

	31-Dec-23 KShs'000 Restated Audited	31-Dec-22 KShs'000 Audited	31-Dec-21 KShs'000 Audited	31-Dec-20 KShs'000 Audited	31-Dec-19 KShs'000 Audited
Assets					
Government securities and other securities	12,959,504	14,562,964	10,229,675	8,911,970	7,287,730
Loans and advances to customers	16,832,573	18,833,312	15,555,984	15,009,358	15,982,158
Other assets	20,250,320	13,595,733	15,705,712	18,825,373	18,137,040
Property and equipment and intangible assets	1,681,489	1,856,579	1,858,271	2,170,624	2,589,190
Total assets	**51,723,886**	**48,848,588**	**43,349,642**	**44,917,325**	**43,996,118**
Liabilities					
Customer deposits	33,129,039	32,733,380	26,592,519	27,976,537	33,327,232
Due to banks	8,946,172	8,352,281	9,300,123	6,281,644	3,396,750
Borrowed funds	2,913,944	1,001,911	970,873	3,823,865	1,439,516
Derivative liabilities held for risk management	-	-	-	342,685	-
Other liabilities	680,375	961,614	864,842	1,073,207	1,556,859
Total equity	6,054,356	5,799,402	5,621,285	5,419,387	4,275,761
Total liabilities and equity	**51,723,886**	**48,848,588**	**43,349,642**	**44,917,325**	**43,996,118**

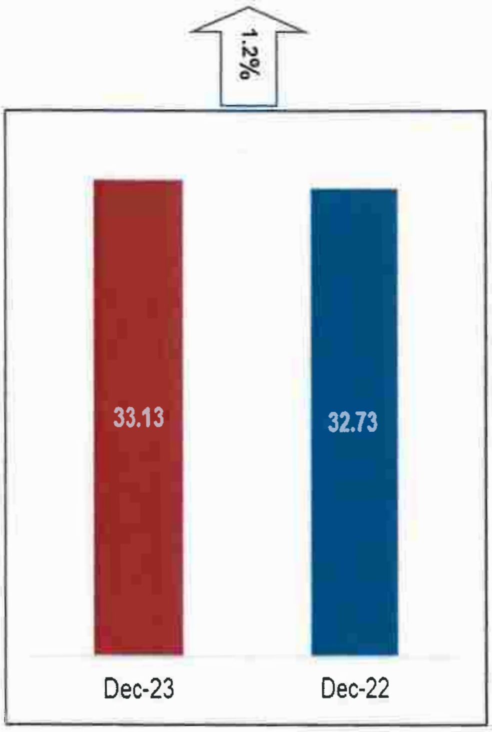
(i) Customer loans and advances (billion KShs)



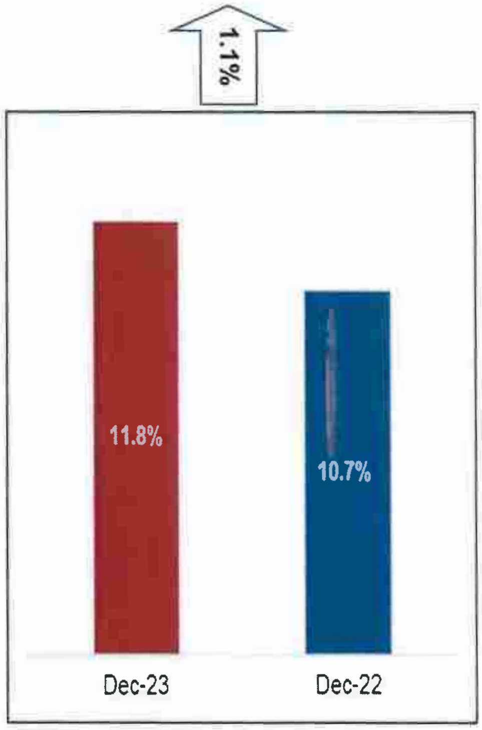
(ii) Government Securities (billion KShs)



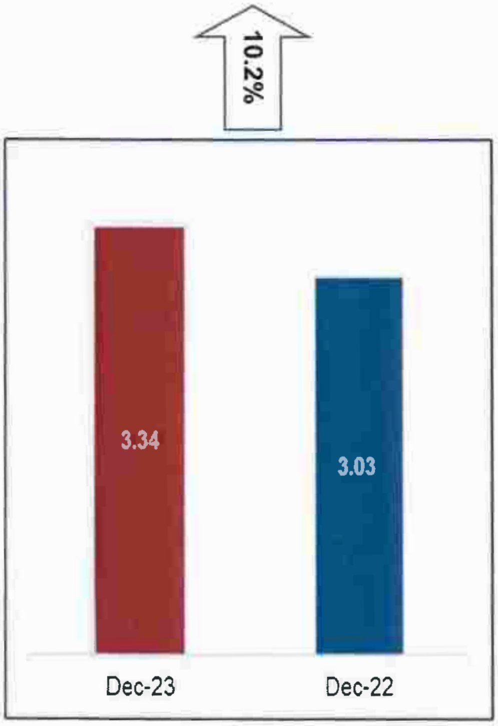
(iii) Customers deposits (billion KShs)



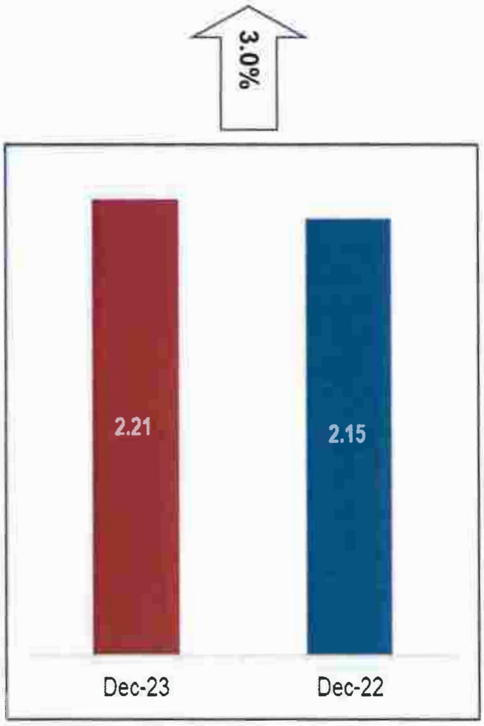
(iv) Core Capital to Risk Weighed Assets



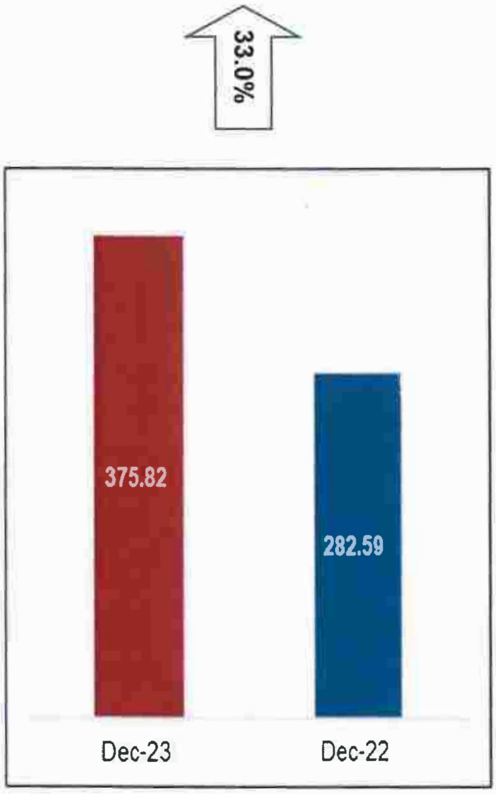
(v) Operating income (billion KShs)



(vi) Operating expenses (billion KShs)



(vii) Profit before tax (million KES)



Potential threats

Description	Example	Mitigation Measures
Credit Risk		
Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the Bank or if an obligor, otherwise fails to perform as agreed.	Default on credit facilities. Settlement failures by counterparties.	Credit risk policy framework, various governance committees, Risk based loan pricing, pre- and post-disbursement controls, Loan book performance monitoring, set up and review of various risk appetite limits (concentration, currency, country, insider etc) and periodic assurance reviews. Also, periodic review of lending strategy with respect to economic sectors and counterparties.
Cyber Risk		
Cyber risk means any risk of financial loss, disruption, or damage to the reputation of an organisation from some sort of failure of its information technology systems.	Social Engineering e.g., Phishing, Malware attacks e.g., viruses, ransomware, Denial of Service, Insider threats, Credentials theft, Data loss & breaches,	Cyber Security Policy and framework, Awareness programs for staff and customers.Training of staff including IT and Risk personnel. Enhanced security architecture and security surveillance to Monitor environment for prevention and detection of attacks.
Information Risk		
Risk arising from weaknesses in the ICT environment, system availability or data integrity.	System downtime Data leakage and privacy breaches Inadequate vendor support and failure to comply with Bank policies.	Business Continuity in place (System Contingency plans & Disaster Recovery), Encryption, use of secure data exchange channels, Service Level Agreements & Non-disclosure agreements for Vendor management. Implementation of updated Information Security Management System (ISMS), BOA Group oversight and monitoring.
Market Risk		
Loss in economic value due to shift in interest rates and currency movements.	Market risk at BOA includes: Interest rate risk, foreign exchange risk, investment risk, settlement risk, liquidity risk and country risk, this poses a potential loss of earning or economic value due to sudden shifts	Guiding policies, framework, and governance committees (Daily Treasury & Assets & liabilities Committees), proper risk identification, early warning indicators monitoring, risk appetite limits set up, review and ongoing monitoring and last but not least stress testing.BOA Group also offers oversight and monitoring through Group Middle Office and Group Market Risk and ALM office.

Potential threats (Continued)

Description	Example	Mitigation Measures
Climate Risk		
Risks posed by climate change, such as damage caused by extreme weather events.	Physical Risks Transition Risks Liability Risks	Guiding Policies, framework and procedure manuals. Risk management process in place to mitigate and manage the risks. Monitory and assessment responsibilities assigned.
Compliance Risk		
Failure to adhere to legal and regulatory requirements.	Non-adherence to new or changes to existing legislation, regulation, and prudential guidelines.	Guiding policies, framework, and governance committees. Robust Compliance unit responsible for new Regulation implementation and compliance to existing requlation. Close monitoring of set compliance thresholds for adherence and remediation.
Reputational Risk		
Potential that negative publicity regarding BOAK's business practices, whether true or not, will cause a decline in the customer confidence, costly litigation, or revenue reductions.	Damage to brand Negative publicity	Governance on risk management to ensure risks are well managed. Customer-focused and effective management of customer feedback on various platforms.
Operational risk		
This is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.	Inadequate/insufficient documentation of processes or procedures. Lack of inbuilt system controls Health and safety issues.	Robust business rules and documented procedures application. Enhanced automation of processes to minimize operational risk. Robust operations risk management framework that ensures operational risks are continuously identified and measured through risk mapping, segregation of duties matrices, periodic risk assessment, key risk indicators, analysis of risk events reported, and corrective action taken.

Employee Relations

Capacity Building

This year, priority will be given to training and Development of our workforce, geared towards building capacity and retaining top talent. This will be carried out in line with our Talent Management Framework that seeks to build motivation and compete for top talent in the industry.

Whilst operating at optimum staff levels, staff will be required to perform bigger and broader tasks hence the need to increase capacity in line with Succession Planning.

Employee Relations (Continued)

Capacity Building (Continued)

We aim to build better leaders by continuous Leadership and Employee Relations Training through both internal and external programs. Growing new Managers is a priority, even as we sharpen the skills of seasoned ones.

Learning and Development

Through Performance Management, gaps will be continuously identified and addressed through relevant training programmes for all staff and targeted Mentorship for identified staff. The Bank's strategy will equally inform the types of Training we offer to staff. Focus areas for the year include aggressively training on Trade Finance, Small and Medium Enterprise (SME), Treasury (Foreign Exchange), Digital Channels and Recoveries.

We continue to benefit from regional collaborations on Trainings and staff are able to attend online programs offered by our partners across the region. Emphasis will be placed on, Processes, Procedures and product knowledge Trainings which will count for staff's overall appraisal scores, overall Training hours per staff will go towards their valuation scores as well.

Employee wellness

We will continue to prioritize staff wellbeing by continuously addressing and offering support for areas related to Covid 19, mental illness, lifestyle diseases and work life balance. Health and wellness talks and physical check-ups will be amongst the ways in which we will ensure we have a comprehensive support program that promotes a healthy and productive workforce.

Awards and recognition

The Bank will seek to find cost effective ways of recognizing staff who have been exemplary in their various roles on a regular basis. This will be aligned to the outcomes of the Performance Management tool in place.

Social and environmental management

The bank believes in creating and maintaining long term value and sustainable partnerships with all its stakeholders. This is achieved through ethical and responsible practices which are entrenched in the bank's business. Compliance, good governance and ethical code of conduct in all our business dealings is non-negotiable.

Financial year 2023 was a challenging year because of the high inflationary environment triggered to a large extent by the Russia-Ukraine conflict and the resultant inflationary pressures on commodities' prices. This triggered Central Banks across the world to increase interest rates to try and rein in inflation. Nevertheless and in line with the United Nations' Sustainable Development Goals, the bank is committed to eradicate poverty by supporting business activities and investments aimed at creating an environmentally sustainable economy. The bank has developed innovative products to enhance financial inclusion especially to the vulnerable groups such as the youth and farmers.

Bank of Africa Kenya (BOAK) continues to play its role as a socially responsible citizen through four CSR pillars namely; Education, Sports, Environment and Health. Consequently, the bank continued its partnership with National Epilepsy Coordination Committee (NECC) and Youth on the Move with respect to creating awareness on Epilepsy management. The bank also continues to adhere to its policy of shunning extending credit to sectors in the exclusion list namely: Coal, Alcohol (except beer and wines), Tobacco, Weapons and Ammunition, and lastly Gambling, Casinos and equivalent businesses.

Employee Relations (Continued)

Social and environmental management (continued)

Moreover, as a caring employer, the bank organized various webinars with health experts in various fields especially mental health to help staff better understand its symptoms, effects and best practices as far as taking care of their mental health is concerned. The bank was also able to organize an annual health check-up which on top of the ordinary tests that are undertaken, factored in a mental health check-up for staff.

While Covid-19 has indeed rescinded in the country, it still lingers on and with the help of the Human Resources Department, the bank organized a session where staff were cautioned to not let their guard down and not to shy away from further vaccination in the form of booster doses. In addition, staff were allowed to work remotely when they were unwell for example a severe cold or cough to avoid transmission to the rest of the staff.

The bank continues supporting businesses recover from the pandemic and scale their activities through its partnership with African Guarantee Fund (AGF) and International Finance Co-operation (IFC) for credit guarantees that enable SMEs access credit facilities with less stringent collateral requirements.

The Directors are responsible for the preparation and fair presentation of the financial statements of Bank of Africa Kenya Limited ("the Bank") set out on pages 18 to 100 which comprise the statement of financial position at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements including Material accounting policies.

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

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

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with IFRS Accounting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Bank and of its profit or loss and its cash flows.

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

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the Bank will not be a going concern for at least the next twelve (12) months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 13 March 2024

Chairman: Ambassador Dennis Awori

Managing Director: Ronald Marambii

Director: Kennedy Wanderi

Company Secretary: Anne Gitau

ANNE W. GITAU CPS (K)
Reg. No. 2497

Date: 13 March 2024

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
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Nairobi, Kenya

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

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BANK OF AFRICA KENYA LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bank of Africa Kenya Limited ("the Bank") set out on pages 18 to 101, which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of it's financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) and in the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of 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 *Bank of Africa Kenya Limited Annual Report and Financial Statements for the year ended 31 December 2023,* but does not include the financial statements and our auditor's report thereon.

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

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

Directors' responsibilities for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS Accounting Standards and in the manner required by the Kenyan Companies Act, 2015, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

KPMG Kenya, is a registered partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited,a private English company limited by guarantee.

Partners AM Mbai, BM Ndung'u, BO Amukah, GM Kasimu, JI Kariuki, JM Gathecha, JM Ndunyu, JM Ngonga, MM Gachuhi, M Muthusi, PI Kinuthia, S Obock, W Genga

KPMG

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BANK OF AFRICA KENYA LIMITED (CONTINUED)

Report on the audit of the financial statements (Continued)

Directors' responsibilities for the financial statements (Continued)

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern; and

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

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BANK OF AFRICA KENYA LIMITED (CONTINUED)

Report on the audit of the financial statements (Continued)

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

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

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015, we report to you solely based on our audit of the financial statements, that the information in the Report of the Directors on page 2 and 3, is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Maurice Gachuhi – Practicing Certificate No. P/2699.

Maurice M. Gachuhi

For and on behalf of:

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

Date: 26 March 2024

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	5	3,958,163	3,230,260
Interest expense	6	(1,839,685)	(1,479,150)
Net interest income		**2,118,478**	**1,751,110**
Fee and commission income	7	480,984	493,740
Fee and commission expense	7	(18,211)	(14,444)
Net fee and commission income		**462,773**	**479,296**
Trading income		737,857	762,327
Trading income FVTPL*		800	416
Net foreign exchange income		**738,657**	**762,743**
Other operating income	8	19,327	35,279
Total income		**3,339,235**	**3,028,428**
Impairment gains/ (losses) on other financial assets	4.1.3	-	1,837
Impairment losses on loans and advances, and outstanding commitments and contingent liabilities	17	(749,332)	(597,736)
Net operating income		**2,589,903**	**2,432,529**
Staff costs	9	(928,624)	(849,033)
Depreciation and amortisation	10	(325,931)	(328,222)
Other operating costs	11	(959,532)	(972,686)
Total operating expenses		**(2,214,087)**	**(2,149,941)**
Profit before income tax		**375,816**	**282,588**
Income tax (charge)/ credit	12	(94,850)	(87,518)
Profit for the year		**280,966**	**195,070**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gross changes fair value in equity investments at FVOCI**	18(a)	18,247	-
Deferred tax on equity investments at FVOCI	23	(5,474)	-
		12,773	**-**
Items that may subsequently be reclassified to profit or loss			
Gross change in fair value of debt instruments at FVOCI		(55,407)	(24,218)
Deferred tax on debt instruments at FVOCI		16,622	7,265
		(38,785)	**(16,953)**
Other comprehensive income, net of tax		**(26,012)**	**(16,953)**
Total comprehensive income for the year		**254,954**	**178,117**

*Fair Value through profit or loss (FVTPL)
**Fair value through other comprehensive income (FVOCI)

The notes on pages 23 to 101 are an integral part of these financial statements.

Statement of financial position as at 31 December 2023

	Notes	2023 KShs'000	2022 KShs'000
ASSETS			
Cash and balances with Central Bank	13	5,374,640	3,838,913
Derivative assets held for risk management	14	279,350	46,688
Due from other banking institutions	15	6,956,184	3,021,850
Due from group banks	16(a)	3,709,927	2,827,536
Loans and advances to customers	17	16,832,573	18,833,312
Investment in equity securities - FVOCI	18(a)	27,921	9,674
Investment in government securities	18(b)	12,959,504	14,562,964
Current income tax recoverable	12	435,664	434,702
Property and equipment	20	1,553,702	1,683,445
Intangible assets	21	127,787	173,134
Other assets	22	867,535	736,455
Deferred income tax	23	2,599,099	2,679,915
TOTAL ASSETS		**51,723,886**	**48,848,588**
LIABILITIES			
Due to group banks	16 (b)	6,346,405	7,348,418
Due to other banking institutions	24	2,599,767	1,003,863
Customer deposits	25	33,129,039	32,733,380
Borrowings	26	2,913,944	1,001,911
Other liabilities	27	680,375	961,614
TOTAL LIABILITIES		**45,669,530**	**43,049,186**
SHAREHOLDERS' EQUITY			
Share capital	28	7,927,449	7,927,449
Share premium	28	1,980,356	1,980,356
Statutory credit risk reserve	29	1,125,040	1,089,679
Fair value reserve	30	(125,325)	(99,313)
Retained earnings		(4,853,164)	(5,098,769)
TOTAL SHAREHOLDERS' EQUITY		**6,054,356**	**5,799,402**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**51,723,886**	**48,848,588**

The financial statements on pages 18 to 101 were approved and authorised for issue by the Board of Directors on 13 March 2024 and signed on its behalf by:

Chairman: Ambassador Dennis Awori

Managing Director: Ronald Marambii

Director: Kennedy Wanderi

Company Secretary: Anne Gitau

ANNE W. GITAU CPS (K) Reg. No. 2437

The notes on pages 23 to 101 are an integral part of these financial statements

Statement of changes in equity for the year ended 31 December 2023

	Notes	Share capital KShs'000	Share premium KShs'000	Statutory credit risk reserve KShs'000	Fair value reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2023		**7,927,449**	**1,980,356**	**1,089,679**	**(99,313)**	**(5,098,769)**	**5,799,402**
Total comprehensive income							
Profit for the year		-	-	-	-	280,966	**280,966**
Transfer to statutory credit risk reserve	29	-	-	35,361	-	(35,361)	**-**
Other comprehensive income							
Gross changes in equity investments at FVOCI	18(a)	-	-	-	18,247	-	**18,247**
Deferred tax on equity investments at FVOCI	23	-	-	-	(5,474)	-	**(5,474)**
Debt instruments at FVOCI – gross change in fair value		-	-	-	(55,407)	-	**(55,407)**
Deferred tax on debt instruments at FVOCI	23	-	-	-	16,622	-	**16,622**
Total comprehensive income for the year		**-**	**-**	**35,361**	**(26,012)**	**245,605**	**254,954**
At 31 December 2023		**7,927,449**	**1,980,356**	**1,125,040**	**(125,325)**	**(4,853,164)**	**6,054,356**

The notes on pages 23 to 101 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2023 (Continued)

	Notes	Share capital KShs'000	Share premium KShs'000	Statutory credit risk reserve KShs'000	Fair value reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2022		**7,927,449**	**1,980,356**	**877,941**	**(82,360)**	**(5,082,101)**	**5,621,285**
Total comprehensive income							
Profit for the year		-	-	-	-	195,070	**195,070**
Transfer to statutory credit risk reserve	29	-	-	211,738	-	(211,738)	**-**
Other comprehensive income							
Debt instruments at FVOCI – gross change in fair value		-	-	-	(24,218)	-	**(24,218)**
Deferred tax on debt instruments at FVOCI	23	-	-	-	7,265	-	**7,265**
Total comprehensive income for the year		**-**	**-**	**211,738**	**(16,953)**	**(16,668)**	**178,117**
At 31 December 2022		**7,927,449**	**1,980,356**	**1,089,679**	**(99,313)**	**(5,098,769)**	**5,799,402**

The notes on pages 23 to 101 are an integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2023

	Notes	2023 KShs'000	2022 KShs'000
Cash flows from operating activities			
Profit before taxation		375,816	282,588
Adjustments for:			
Depreciation and amortisation	10	325,931	328,222
Impairment losses on other financial assets		-	(1,837)
Impairment losses on loans and advances	17	749,332	597,736
Net interest income		(2,118,478)	(1,751,110)
Exchange differences on borrowings	26	307,985	27,072
Write off of property, plant and equipment	20	3,977	187
		(355,437)	**(517,142)**
Changes in:			
Net derivative assets and liabilities held for risk management	14	(232,662)	(4,706)
Loans and advances to customers	17	1,486,849	(3,643,984)
Cash reserve requirement	13	10,161	(258,827)
Other assets	22	(131,080)	248,475
Customer deposits	25	395,659	6,140,861
Due from other banking institutions	15	-	581,402
Amounts due from group banks	16(a)	1,064,635	84,331
Amounts due to group banks	16(a)	(1,002,013)	(748,161)
Due to other banking institutions	24	1,595,904	(199,681)
Other liabilities	27	(179,985)	20,576
		3,007,468	**2,220,286**
Interest received		3,719,604	2,999,180
Interest paid		(1,803,137)	(1,462,595)
Income tax paid	12	(4,149)	(2,953)
Net cash flows from/ (used) in operating activities		**4,564,349**	**3,236,776**
Cash flows from investing activities			
Acquisition of property and equipment	20	(130,094)	(25,959)
Acquisition of intangible assets	21	(24,746)	(38,340)
Acquisition of investment securities- bills and bonds		(2,000,000)	(5,450,150)
Proceeds from sale of investment securities- bills and bonds		3,817,129	1,890,526
Dividends received from equity investments	8	-	11,205
Net cash flows used in investing activities		**1,662,289**	**(3,612,718)**
Cash flows from financing activities			
Proceeds from borrowings	26	1,567,500	-
Payment of principal lease liability	19	(205,962)	(210,016)
Net cash flows (used in)/generated from financing activities		**1,361,538**	**(210,016)**
Net decrease in cash and cash equivalents		**7,588,176**	**(585,958)**
Cash and cash equivalents at 1 January		**8,050,678**	**8,636,636**
Effect of exchange rate fluctuations on cash and cash equivalents held		(2,666)	-
Cash and cash equivalents at 31 December	32	**15,636,188**	**8,050,678**

The notes on pages 23 to 101 are an integral part of these financial statements.

1. General information

Bank of Africa Kenya Limited is incorporated in Kenya under the Kenyan Companies Act, 2015 as a limited liability company, and is domiciled in Kenya. The company is regulated by the Central Bank of Kenya (CBK). The Bank is controlled by Bank of Africa (BOA) Group S.A. incorporated in Luxembourg with its ultimate parent being BMCE Bank incorporated in Morocco. The address of its registered office is:

BOA House
LR No: 1870/III/598
School Lane
Westlands, Nairobi
P.O. Box 69562
00400 - Nairobi, Tom Mboya

2. Material accounting policies

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

In addition, the Bank adopted *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* from 1 January 2023. The amendments require the disclosure of 'material', rather than 'significant' accounting policies. The amendments di not result in any changes to the accounting policies themselves.

2.1 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with IFRS Accounting Standards and in the manner required by the Kenyan Companies Act, 2015.

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

(b) Comparatives

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

(c) Going concern

The Bank made a Profit of KShs 281.0 million during the year ended 31 December 2023 (2022: KShs 195.1 million).The Bank's negative retained earnings improved and were in a deficit of KShs 4,853.1 million (2022 a deficit of KShs 5,098.8 million). As at that date, the Bank was compliant on all capital ratios other than investment in land and buildings to core capital ratio.

In the Financial Year 2021 Financials, the Bank embarked on some initiatives to ensure it was profitable and operated within the requirements of the Banking Act and the CBK Prudential Guidelines.The following is an update of the key initiatives in the Financial Year 2023.

2. Material accounting policies (Continued)

2.1 Basis of preparation (Continued)

(c) Going concern (Continued)

i. Liquidity Management

The Bank's liquidity position at 31 December 2023 was 60.1% (2022 48.1%) as measured in line with the regulatory requirements by the Central Bank of Kenya. This remains a strong pillar of the Bank underlying the ease of access to funding opportunities. The ratio is calculated by dividing the Bank's near cash assets mainly cash, net of bank balances, government securities and dividing that with its current liabilities.

The Bank has sufficient liquidity to fund its day to day operations and is able to meet its short term obligations.

The Bank deems the current liquidity levels to be adequate.

ii. Core Capital Enhancement

As per note 4.5 on Capital Management, the Bank was compliant with all its capital ratios except investment in land and buildings to core capital ratio as at 31 December 2023. This was a result of Capital optimization measures as highlighted below;

(a) The Bank has focused on the natural growth of the core capital through improving the retained earnings for the period ending December 2023.

(b) The Bank has continued to utilise the existing Portfolio Risk Sharing Guarantee Scheme with International Finance Corporation (IFC) amounting to USD 6 million in addition to the existing USD 10 million with African Guarantee Fund (AGF) to support SME growth.

iii. Lending Activities

The Bank shall continue with lending activities in support of its clientele base while taking cognisant of the capital adequacy ratios and other statutory ratios as per the Banking Act. Continued lending is seen as important to instil market and customer confidence on ability of the Bank and Group to continue financing the economy.

The Bank launched the 2023 to 2024 Triennial Development Plan (TDP) that will focus on three key pillars; Assets transformation (growth),Trade Finance and Digital transformation. The Bank forecasts to gradually grow its assets base and maintain profitability during the TDP period.

iv. Management Commitment

Management is confident that the steps being taken on provisions and capital increase will enable BOA Kenya be in a stronger position to actively participate in business development and financing of the economy in a stable and consistent manner and will make BOA Kenya more resilient to any shocks in the economy. As at 31 December 2023, the directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the Bank will not be a going concern for at least the next twelve (12) months from the date of this statement.

2. Material accounting policies (Continued)

2.1 Basis of preparation (Continued)

(d) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the derivative financial and debt and security at FVOCI instruments, which are measured at fair value.

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

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

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

Level 2 – fair value measurements are derived from inputs other than quoted prices used in Level 1 that are observable for the assets or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 – fair value measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

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

(e) Use of estimates and judgements

In preparing financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

- Note 4.1.3 establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.
- Notes 2.10.(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

2. Material accounting policies (Continued)

2.1 Basis of preparation (Continued)

(e) Use of estimates and judgements (continued)

i. Assumptions and estimation uncertainties

— Notes 4.1 and 4.1.3 impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows (discounted to the cost of realization) and incorporation of forward-looking information.

Refer to note 3 for a detailed description.

(f) Borrowing costs

Borrowing costs, net of any temporary investment income on those borrowings, that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset. The net borrowing cost capitalised is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowings directly attributable to the asset and applying this rate to the borrowing attributable to the asset. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.2 Interest

(i) Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

— the gross carrying amount of the financial asset; or
— the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not Expected Credit Loss (ECL). For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

2. Material accounting policies (Continued)

2.2 Interest (Continued)

(ii) Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

(iii) Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at Fair Value through Other Comprehensive Income (FVOCI);
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Other interest income presented in the statement of profit or loss and OCI includes interest income on lease receivables.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
- interest expense on lease liabilities.
- Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

2. Material accounting policies (Continued)

2.2 Interest (Continued)

(iii) Calculation of interest income and expense (Continued)

Interest income and expense on other financial assets at Fair Value Through Profit or Loss (FVTPL) are presented in interest income and interest expense in the statement of profit or loss.

Cash flows related to capitalised interest are presented in the statement of cash flows consistently with interest cash flows that are not capitalised.

2.3 Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fee and commission income – including trade finance fees, credit related fees and service-related fees – is recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

2.4 Net foreign exchange gain

The net foreign exchange gain comprises of the net gain by calculating the difference between the value of the Bank's foreign currency assets and liabilities at the end of a reporting period and taking into account any foreign exchange gain or loss incurred during the period. The components may include:

- Foreign exchange trading income,
- Foreign currency translation adjustments,
- Foreign exchange fees and commissions earned from foreign exchange transactions and
- Other foreign exchange gains or losses from exchange related transactions such as currency swap's.

2.5 Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for all equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

2. Material accounting policies (Continued)

2.6 Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) Bank acting as a lessee

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

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate of 13% by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2. Material accounting policies (Continued)

2.6 Leases (Continued)

(i) Bank acting as a lessee - continued

Where the basis for determining future lease payments changes as required by interest rate benchmark reform, the Bank remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

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

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Bank acting as a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

The Bank engages in leasing arrangements of space for the purpose of supporting its operational activities. The Bank retains substantially all the risks and rewards incidental to ownership of the leased asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Bank recognizes the importance of effectively managing risks associated with the rights to retain underlying assets leased to lessees. The risk management practices are designed to mitigate potential adverse impacts and ensure the financial stability and sustainability of its leasing activities. Key elements of the Bank's risk management approach include asset maintenance & monitoring as well as compliance with relevant legal and regulatory requirements governing leasing activities, including lease agreements, property laws and IFRS accounting standards. Contained in the lease agreements are clauses relating to deposit payment, escalation, renewal and/or termination of the agreement.

2.7 Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Bank has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and has recognised the related expenses in 'other expenses'.

2. Material accounting policies (Continued)

2.7 Income tax (Continued)

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

— temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Temporary differences in relation to a right-of-use asset and a lease liability for a specific lease are regarded as a net package (the lease) for the purpose of recognising deferred tax.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investments measured at fair value is presumed to be recovered through sale, and the Bank has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

2. Material accounting policies (Continued)

2.7 Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI-debt instrument, FVOCI- equity investment or FVTPL.

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

— the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
— the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

— the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
— the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI).

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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

2. Material accounting policies (Continued)

2.7 Financial assets and financial liabilities (Continued)

(ii) Classification - continued

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Bank's corporate and business banking activities comprise primarily loans to customers that are held for collecting contractual cash flows. Loans in the business banking segment comprise of mortgages, overdrafts, unsecured personal lending.

Certain debt securities are held by the Bank's treasury department in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

Certain other debt securities are held by the Bank Treasury in separate portfolios to meet everyday liquidity needs. The Bank Treasury seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Bank considers that these financial assets are held within a business whose objective is achieved by both collecting contractual cashflows and selling financial assets.

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

Assessment of whether contractual cash flows are Solely Payments of Principal and Interest (SPPI)

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

2. Material accounting policies (Continued)

2.7 Financial assets and financial liabilities (Continued)

(ii) Classification (Continued)

Assessment of whether contractual cash flows are Solely Payments of Principal and Interest (SPPI) (Continued)

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

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

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

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised.

(iii) Reclassification

The bank reclassifies financial assets when, and only when, the management changes the business model for managing the financial assets. Such changes are expected to be infrequent and arise as a result of significant external or internal changes. Financial liabilities are not reclassified subsequent to initial recognition.

(iv) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also (iv)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

2. Material accounting policies (Continued)

2.7 Financial assets and financial liabilities (Continued)

(iv) Derecognition (Continued)

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in Note 2.12. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

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

(v) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

2. Material accounting policies (Continued)

2.7 Financial assets and financial liabilities (Continued)

(v) Modifications of financial assets and financial liabilities (Continued)

— fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

— other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss.

For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instruments.

2. Material accounting policies (Continued)

2.7 Financial assets and financial liabilities (Continued)

(v) Modifications of financial assets and financial liabilities (Continued)

Interest rate benchmark reform

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Bank updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

— the change is necessary as a direct consequence of the reform; and
— the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e., the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Bank first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Bank applies the policies on accounting for modifications set out above to the additional changes.

(vi) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously

Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(vii) Fair value measurement

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

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

2. Material accounting policies (Continued)

2.7 Financial assets and financial liabilities (Continued)

(vii) Fair value measurement (continued)

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure.

Portfolio-level adjustments – e.g., bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

(viii) Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

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

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

2. Material accounting policies (Continued)

2.7 Financial assets and financial liabilities (Continued)

(viii) Impairment (Continued)

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

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

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts*: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

When discounting future cash flows, the following discount rates are used:

- *financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables*: the original effective interest rate or an approximation thereof;
- *lease receivables*: the discount rate used in measuring the lease receivable;
- *undrawn loan commitments*: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- *financial guarantee contracts issued*: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

2. Material accounting policies (Continued)

2.7 Financial assets and financial liabilities (Continued)

(viii) Impairment (Continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost, debt financial assets carried at FVOCI and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past-due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

2. Material accounting policies (Continued)

2.7 Financial assets and financial liabilities (Continued)

(viii) Impairment (Continued)

— The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

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

— *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;

— *loan commitments and financial guarantee contracts*: generally, as a provision;

— *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

— *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in retained earnings.

Write Off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Financial guarantee contracts held

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

— the guarantee is implicitly part of the contractual terms of the debt instrument;

— the guarantee is required by laws and regulations that govern the contract of the debt instrument;

— the guarantee is entered into at the same time as and in contemplation of the debt instrument; and

— the guarantee is given by the parent of the borrower or another company within the borrower's group.

2. Material accounting policies (Continued)

2.7 Financial assets and financial liabilities (Continued)

(viii) Impairment (Continued)

Financial guarantee contracts held (continued)

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

— the guarantee is implicitly part of the contractual terms of the debt instrument;
— the guarantee is required by laws and regulations that govern the contract of the debt instrument;
— the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
— the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets' (see Note 24). The Bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

2.8 Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.9 Trading assets and liabilities

'Trading assets and liabilities' are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

2.10 Loans and Advances

The 'loans and advances to banks' caption in the statement of financial position includes loans and advances measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

2. Material accounting policies (Continued)

2.10 Loans and Advances (Continued)

The 'loans and advances to customers' caption in the statement of financial position includes:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- lease receivables.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the consideration paid is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

2.11 Investment Securities

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present changes in the fair value of certain investments in equity instruments that are not held for trading in OCI. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Fair value gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

2. Material accounting policies (Continued)

2.12 Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives of property and equipment for the current and comparative periods are as follows:

— Buildings	67 years
— Fixtures and fittings	10 years
— IT equipment	5 years
— Furniture and equipment	5 years
— Motor Vehicles	3 years

The Right of Use (ROU) asset is depreciated on a straight-line basis to the lifetime of the lease.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) Derecognition

The carrying amount of an item of property, plant & equipment shall be derecognised:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

2.13 Intangible assets

Software

Software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses.

2. Material accounting policies (Continued)

2.13 Intangible assets (Continued)

Software (Continued)

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate: that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2.14 Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or Cash Generating Unit's (CGUs).

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Bank's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. Material accounting policies (Continued)

2.15 Deposits, debt securities in issue and subordinated debt

Deposits, debt securities in issue and subordinated liabilities are the Bank's sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale-and-repurchase agreement), the consideration received is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities in issue and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs. Subsequently, they are measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at FVTPL.

When the Bank designates a financial liability as at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the Bank assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- the impact on profit or loss of expected changes in the fair value of instruments whose characteristics are economically related to the characteristics of the liability.

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

2.16 Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Other loan commitments issued are measured at the sum of (i) the loss allowance determined in accordance with IFRS 9 and (ii) the amount of any fees received, less, if the commitment is unlikely to result in a specific lending arrangement, the cumulative amount of income recognised. Derecognition policies in are applied to loan commitments issued and held.

The Bank has issued no loan commitments that are measured at FVTPL.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

2. Material accounting policies (Continued)

2.17 Other provisions

Other provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as interest expense.

Restructuring	A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.
Bank Levies	A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

2.18 Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Other long-term employee benefits

The Bank's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Bank can no longer withdraw the offer of those benefits and when the Bank recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

2.19 Share capital, other equity and reserves

(i) Other equity instruments

The Bank classifies instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Bank's other equity instruments are not redeemable by holders and bear an entitlement to coupons at the sole discretion of the board of directors. Accordingly, they are presented within equity. Distributions thereon are recognised in equity. Based on the Bank's assessment of the terms of the instruments, the coupon payments meet the definition of dividends. Therefore, the related tax impacts are recognised in profit or loss in accordance with IAS 12, unless the transactions or events that generated those distributable profits were recognised outside profit or loss.

2. Material accounting policies (Continued)

2.19 Share capital, other equity and reserves (Continued)

(ii) Share issue costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

2.20 New Standards, amendments and interpretations in issue but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted. The Bank has not early adopted the new and amended standards in preparing these consolidated financial statements.

(i) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences -e.g., leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Bank accounts for deffered tax on leases applying the 'integral linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the Bank will recognises a separate deferred tax asset and a deferred tax liability. As at 31 December 2023, the deductable temporary difference in relation to the lease liability is Ksh 25,584 million. Under the amendments, the Bank will present a separate deferred tax liability of Ksh. 6,300 million. There will be no impact on retained earnings on adoption of the amendments.

(ii) Other Standards

The following new and amended standards are not expected to have a significant impact on the Banks consolidated financial statements.

— Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023
— Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practise Statements 2)	1 January 2023
— Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023
— Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2023
— Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Effective date deferred indefinitely

3. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

3.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and debt instruments measured at FVOCI is an area that requires the use of complex models and significant assumptions about the future economic conditions and credit behaviour (e.g., the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirement for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/ market and associated ECL;
- Establishing of similar financial assets for the purpose of measuring ECL;
- Determining the appropriate business models and assessing the SPPI requirements for financial assets.

3.2 Fair value of financial instruments

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

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

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

Level 2 – fair value measurements are derived from inputs other than quoted prices used in Level 1 that are observable for the assets or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs). Transfers between levels of the fair value hierarchy are recognised by the Bank at the end of the reporting period during which the change occurred.

3. Critical accounting estimates and judgements in applying accounting policies (Continued)

3.3 Taxes

Determining the income tax liability involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on temporary differences where it is probable that there will be taxable revenue against which these can be offset.

3.4 Leases – extension options

The directors have made a judgement on whether the Bank is reasonably certain to exercise extension option of its leases. Some leases of branch premises contain extension options exercisable by the Bank before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

4. Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The effective management of risk within the stated risk appetite is fundamental to the banking activities of the Bank.

Risk management is at the core of the operating and management structures of the Bank and this involves managing and controlling of risks and in particular avoiding undue concentration of exposures, limiting potential losses from stress events and constraining profit or loss volatility. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations.

The overall responsibility for risk management within the Bank rests with the Board of Directors. Through the risk management structure, the Bank seeks to manage efficiently the core risks i.e credit, liquidity and market risks which arise directly through the Bank's commercial activities. Accountability for risk management resides at all levels within the Bank, from the Executive down through the organisation to each business manager and risk owner.

On a day- to -day basis, risks are managed through a number of management committees. Through this process the Bank monitors compliance with overall risk management policies. The Bank's risk management policies are approved by the Board and they identify, analyse the risks faced by the Bank as well as the appropriate risk limits and controls.

The Bank's Risk Management Committees are responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. Risk Management information is provided on a regular basis to the Board Risk Management and Compliance Committee.

The Board Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the robustness of the risk management framework in relation to the risks faced by the Bank.

4. Financial risk management (Continued)

4.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

The domestic business environment continues on a recovery path from challenges that were endured with the on-set of COVID-19. However, changing global macro-economic challenges continue to negatively affect the domestic economy with new challenges in a depreciating domestic currency, rising interest rates and fears of recession in 2024.

The Senior Bank management have opted to maintain the IFRS 9 model assumptions while updating the macro-economic forecasts to reflect the current macro economic shocks. The stress scenarios were however not applied on specific clients since the effects are yet to trickle down to clients. The Bank remains vigilant on the changing macro-economic dynamics.

The bank sources macroeconomic information from BMI Research; a reputable data vendor that sources and forecasts using information from World Bank, International Monetary Fund (IMF), CBK, Economist Intelligence Unit (EIU), Kenya National Bureau of Statistics (KNBS) etc. These sources have invested in statistical modelling tools and procedures that over the years has made them reputable and reliable.

The following macro-economic variables were considered in the modelling:

Variable	Expected Relationship with PDs
Nominal Effective Exchange Rate, % chg y-o-y	+
Nominal GDP, USD, % chg y-o-y	-
Services imports, USD, % chg y-o-y	+
M3, USD, % chg y-o-y	-
Nominal GDP per capita, USD, % chg y-o-y	-
Total revenue (Taxes collected by the government), LCU, % chg y-o-y	-

- The weighting of upside, downside and base case economic scenarios were adjusted to reflect the economic outlook going into the future with a weighting of 20 percent for the upside, 40 percent for the baseline and 40 percent for the downside.

- The Bank has applied an economic sectoral approach on client stratification with the key sectors being:

  (i) Building and construction
  (ii) Manufacturing
  (iii) Personnel services
  (iv) Trade
  (v) Transport and
  (vi) Others

- The Forward-Looking Information (FLI)'s is then adjusted to reflect the economic outlook before applying the same to the Probability's of Default (PD's).

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.1 Credit Quality Analysis

The following tables set out information about the credit quality of financial assets measured at amortised cost, lease receivables and FVOCI debt investments without taking into account collateral or other credit enhancement. Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 4.1.3.

			2023			
	Note	12-month PD ranges	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Balances due from banking institutions						
Normal			6,956,910	-	-	6,956,910
Less: Loss allowance			(726)	-	-	(726)
Carrying amount	15		**6,956,184**			**6,956,184**
Balances due from Group banks						
Normal			3,710,303	-	-	3,710,303
Less: Loss allowance			(376)	-	-	(376)
Carrying amount	16 (a)		**3,709,927**			**3,709,927**

			2022			
	Note	12-month PD ranges	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Balances due from banking institutions						
Normal		1.17	3,022,576	-	-	3,022,576
Less: Loss allowance			(726)	-	-	(726)
Carrying amount	15		**3,021,850**	**-**	**-**	**3,021,850**
Balances due from Group banks						
Normal			2,827,912	-	-	2,827,912
Less: Loss allowance		1.17	(376)	-	-	(376)
Carrying amount	16 (a)		**2,827,536**	**-**	**-**	**2,827,536**

Balances due from banking institutions excludes cash with Central Bank of Kenya as disclosed under Note 15 as this does not pose a credit risk

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.1 Credit Quality Analysis (Continued)

Loans and advances to customers at amortised cost	Note	2023 Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Normal		12,756,659	-	-	12,756,659
Watch		-	1,574,771	-	1,574,771
Non-Performing		-	-	4,663,760	4,663,760
Less: Impairment		(20,440)	(75,669)	(2,066,508)	(2,162,617)
Carrying amount	17	**12,736,219**	**1,499,102**	**2,597,252**	**16,832,573**

Loans and advances to customers at amortised cost	Note	2022 Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Normal		14,766,719	-	-	14,766,719
Watch		-	1,298,226	-	1,298,226
Non-Performing		-	-	5,320,769	5,320,769
Less: Impairment		(16,067)	(103,671)	(2,432,664)	(2,552,402)
Carrying amount	17	**14,750,652**	**1,194,555**	**2,888,105**	**18,833,312**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.1 Credit Quality Analysis (Continued)

Investment securities	Note	2023 Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Kenya Government bonds and treasury bills					
Government securities		12,977,100	-	-	12,977,100
Less: Impairment		(17,596)	-	-	(17,596)
Carrying amount	18(b)	12,959,504	-	-	12,959,504

Investment securities		2022 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Kenya Government bonds and treasury bills	**Note**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Government securities		14,580,560	-	-	14,580,560
Less: Impairment		(17,596)	-	-	(17,596)
Carrying amount	18(b)	**14,562,964**	**-**	**-**	**14,562,964**

		2023 Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Outstanding commitments and contingent liabilities					
Neither past due nor impaired		8,634,426	-	-	8,634,426
Less: Impairment		(5,943)	-	-	(5,943)
Carrying amount	31	8,628,483	-	-	8,628,483

		2022 Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Outstanding commitments and contingent liabilities					
Neither past due nor impaired		8,626,640	-	-	8,626,640
Less: Impairment		(4,795)	-	-	(4,795)
Carrying amount	31	**8,621,845**	**-**	**-**	**8,621,845**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.2 Collateral held and other credit enhancements

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

Type of credit exposure	Percentage of exposure that is subject to collateral requirements		
	2023	2022	Principal type of collateral held
Loans and advances to banks	100	100	Marketable Securities
Loans and advances to retail			
Mortgage	80	80	Residential Property
Secured Term loans	75	75	Landed property
New Motor Vehicles	90	90	Personal Vehicle
Overdraft facilities	110	110	Lien on Cash deposit
LC's, guarantees & Acceptances	100	100	Lien on Cash deposit
Loans and advances to Corporate			
Mortgage	80	80	Commercial Property
Secured Term loans	75	75	Landed property
New Motor Vehicles	90	90	Commercial Vehicles
Overdraft facilities	110	110	Lien on Cash deposit
LC's, guarantees & Acceptances	100	100	Lien on Cash deposit
Reverse sale-and-repurchase agreements	100	100	Marketable securities

Derivatives, reverse sale-and repurchase agreements and securities borrowing

The Bank mitigates the credit risk of derivatives, reverse sale-and-repurchase agreements and securities lending by entering into master netting agreements and holding collateral in the form of cash and marketable securities.

Derivative transactions are transacted on exchanges, with CCPs or entered into under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under these agreements, in certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement with the counterparty are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions with the counterparty. The Bank executes a credit support annex in conjunction with the ISDA agreement, which requires the Bank and its counterparties to post collateral to mitigate counterparty credit risk. Margin is also posted daily in respect of derivatives transacted on exchanges and with CCPs. Certain derivatives are 'settled-to-market' daily, whereby the daily variation margin is a partial settlement of the outstanding derivative positions and the fair values of the derivatives are reduced accordingly.

The Bank's sale-and-repurchase, and reverse sale-and-repurchase, transactions and securities borrowing and lending are covered by master agreements with netting terms similar to those of ISDA master netting agreements.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant Increase in Credit Risk (SICR)

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

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

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

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:
— quantitative test based on movement in PD;
— qualitative indicators; and
— a backstop of 30 days past due.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposures	Business Banking exposures	All exposures
- Information obtained during periodic review of customer files – e.g., audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes. - Data from credit reference agencies, press articles, changes in external credit ratings. - Quoted bond and credit default swap (CDS) prices for the borrower where available. - Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	- Internally collected data on customer behaviour - Affordability metrics - External data from credit reference agencies, including industry-standard credit scores.	- Payment record – this includes overdue status as well as a range of variables about payment ratios. - Utilisation of the granted limit. - Requests for and granting of forbearance - Existing and forecast changes in business, financial and economic conditions.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

Credit risk grades (Continued)

The table below provides an indicative mapping of how the Bank's internal credit risk grades relate to PD and, for the wholesale portfolio, to external credit ratings of Moody's Agency.

The Banks portfolio comprises of loans and advances to various economic sectors mainly: Trade, Building and construction, Manufacturing, Transport and communications, Personnal Services and others. The weighted average PD's are presented below:

Grading	Stage 1 12-month weighted-average PD	Stage 2 Life-time weighted-average PD
Trade	0.18	5.56
Building and Construction	0.36	17.55
Manufacturing	0.07	0.04
Transport & Communications	0.09	6.91
Personnal Services	0.83	2.83
Others	0.09	4.01

The retail portfolios are comprised of mortgage lending, asset finance and personal loans.

Grading	12-month weighted-average PD
Stage 1: Low–fair risk	0.27
Stage 2: Higher Risk	7.59
Stage 3: Default	100.00

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

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

Determining whether credit risk has increased significantly

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

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling:

— the remaining lifetime PD is determined to have increased by more than 100% of the corresponding amount estimated on initial recognition; or,

In addition, irrespective of the relative increase since initial recognition, credit risk of an exposure is deemed not to have increased significantly if its remaining annualised lifetime PD at the reporting date is 20% basis points or less.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

Determining whether credit risk has increased significantly (Continued)

Credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

The Bank identifies key drivers behind changes in credit risk for portfolios. Generally, a significant increase in credit risk is assessed based on the estimation of PDs and consideration of qualitative factors, each of which are designed to reflect forward-looking information, on an individual instrument basis as described above. However, if the Bank identifies a key driver that is not considered in the individual assessment on a timely basis, then the Bank will evaluate whether there is reasonable and supportable information that enables it to make an additional assessment on a collective basis with respect to all or some of a portfolio. This may lead to the Bank concluding that a segment or proportion of a portfolio has undergone a significant increase in credit risk.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due or, for certain types of exposure, more than 15 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Management overlays may be applied to the model outputs if consistent with the objective of identifying a significant increase in credit risk.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2 and 3).

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

Definition of default (Continued)

— it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

— qualitative: e.g., breaches of covenant;
— quantitative: e.g., overdue status and non-payment on another obligation of the same issuer to the Bank; and
— based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of 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: a base case, which is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario. The central scenario 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 OECD and the International Monetary Fund, and selected private-sector and academic forecasts.

The scenario probability weightings applied in measuring ECL are as follows.

	2023			2022		
As at 31 Dec	Upside	Baseline	Downside	Upside	Baseline	Downside
Scenario probability weighting	20%	40%	40%	20%	40%	40%

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 by a panel of experts that advises the Bank's senior management.

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.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Forward-looking information incorporated in the ECL models (Continued)

The key drivers for credit risk for wholesale portfolios are: GDP growth, labour force, balance of payments, inflation, money supply and interest rates.

The Bank estimates each key driver for credit risk over the active forecast period of three years. This is followed by a period of mean reversion of between two and four years, depending on the product and geographical market.

The table below lists examples of the key macroeconomic variables used in the base scenario over the ten-year forecast period. The variables represent the absolute percentage changes on a year to year basis.

	Nominal Effective Exchange Rate, % chg y-o-y	Nominal GDP, USD, % chg y-o-y	Services imports, USD, % chg y-o-y	M3, USD, % chg y-o-y	Nominal GDP per capita, USD, % chg y-o-y	Total revenue, LCU, % chg y-o-y
2022	-3.2%	8.3%	8.0%	7.0%	5.9%	10.6%
2023	-3.0%	9.1%	7.0%	6.8%	6.7%	10.1%
2024	-3.0%	8.3%	7.0%	5.6%	6.0%	8.2%
2025	-3.0%	11.3%	7.0%	10.6%	8.9%	8.0%
2026	-2.8%	12.5%	7.0%	9.3%	10.1%	7.6%
2027	-2.3%	9.7%	7.0%	6.8%	7.5%	7.6%
2028	-2.0%	8.7%	7.0%	6.8%	6.5%	7.6%
2029	-2.0%	8.3%	7.0%	6.6%	6.2%	7.2%
2030	-2.0%	8.3%	7.0%	6.6%	6.2%	6.8%

Key:
BoP: Balance of Payments
CPI: Consumer Price Index
GDP: Gross Domestic Product
M3: Broad Money Supply
y-o-y: Year on Year

The Bank has revised its economic forecasts used as an input into ECL as at 31 December 2023 given the on-going global macro-economic challenges. The key macro-economic factors that were evaluated by the Bank and deemed to be most correlated to the historical and forecasted default statistics include interest and foreign exchange rates, Inflation, GDP growth and population statistics.

The Central Bank of Kenya increased interest rates in 2023 as all measures were put in place to contain the rising inflation rates and stabilise the Kenyan shilling.

The upside scenario represents a robust economy powered by low unemployment and a moderate interest rate environment that drives healthy levels of consumption and investment.

The downside scenario represents an economic downturn as unemployment rises and GDP growth declines, partially attributable to international instability and domestic economic shocks. During this time, it is expected that the Central Bank of Kenya will continue raising interest rates to stabalise the inflation levels and stabalise the depreciating exchange rate.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 to 15 years.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Forward-looking information incorporated in the ECL models (Continued)

Sensitivity of ECL to future economic conditions

The ECL are sensitive to judgements and assumptions made regarding formulation of forward looking scenarios and how such scenarios are incorporated into the calculations. Management performs a sensitivity analysis on the ECL recognised on material classes of its assets.

Modified Financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

— its remaining lifetime PD at the reporting date based on the modified terms; with
— the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities) to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Measurement of ECL

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

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

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

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LG models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

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

However, for retail overdrafts that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period.

These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level.

This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Measurement of ECL

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

— instrument type;
— credit risk grade;
— collateral type;
— LTV ratio for retail mortgages;
— date of initial recognition;
— remaining term to maturity;
— industry; and geographic location of the borrower.

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

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

Judgemental adjustments

Where appropriate, the Bank makes adjustments to the ECL estimate outside the Banks regular modelling process to reflect management judgements. Changes to the assumptions underlying these judgemental adjustments could materially affect ECL within the next 12 months. These adjustments include post-model adjustments (PMAs) and overlays.

PMAs are adjustments to the ECL balance as part of the year-end reporting process to reflect late updates to market data, known model deficiencies and expert credit judgement. They are usually calculated and allocated at a granular level through modelled analysis, calculated separately for each economic scenario and where appropriate used to adjust stage allocation outcomes.

Overlays are adjustments to the ECL model outputs that have been made outside the detailed ECL calculation and reporting process. These do not meet the Bank's definition of PMAs because they are not calculated at a granular level through modelled analysis.

The Bank has internal governance frameworks and control in place to assess the appropriateness of all judgemental adjustments. The aim of the Bank is to incorporate these adjustments into the ECL models, where possible, as part of the periodic recalibration and model assessment procedures.

The Bank did not have Post Model Adjustments as at 31 December 2023.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3 Amounts arising from ECL (Continued)

Loss Allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The fair value of financial instruments is determined based on present value techniques considering future cash flows, credit risk factors, and market conditions. Sensitivity analysis, qualitative risk discussion and disclosure of significant unobservable inputs provide transparency and ensures accurate representation of the financial statements.

	2023			
	Stage 1 12-month ECL KShs'000	**Stage 2 Lifetime ECL KShs'000**	**Stage 3 Lifetime ECL KShs'000**	**Total KShs'000**
Loans and advances to customers at amortised cost				
Balance as at 1 January	16,067	103,671	2,432,664	**2,552,402**
Transfer to stage 1	4,351	(4,215)	(136)	-
Transfer to stage 2	(2)	5,380	(5,378)	-
Transfer to stage 3	(48)	(639)	687	-
New financial assets originated or purchased	6,315	87,272	679,496	**773,083**
Write-offs	(6,243)	(115,800)	(1,070,519)	**(1,192,562)**
Recoveries of amounts previoulsy written off	-	-	29,694	**29,694**
Balance as at 31 December	**20,440**	**75,669**	**2,066,508**	**2,162,617**

	2022			
	Stage 1 12-month ECL KShs'000	**Stage 2 Lifetime ECL KShs'000**	**Stage 3 Lifetime ECL KShs'000**	**Total KShs'000**
Loans and advances to customers at amortised cost				
Balance as at 1 January	**57,392**	**168,050**	**5,401,177**	**5,626,619**
Transfer to stage 1	542	-	(542)	-
Transfer to stage 2	(46)	812	(766)	-
Transfer to stage 3	(59,410)	(300,177)	359,587	-
Net remeasurement of loss allowance	(584)	(2,450)	(12,206)	**(15,240)**
New financial assets originated or purchased	18,233	362,647	257,756	**638,636**
Write-offs	(60)	(125,211)	(3,546,682)	**(3,671,953)**
Recoveries of amounts previoulsy written off	-	-	(25,660)	**(25,660)**
Balance as at 31 December	**16,067**	**103,671**	**2,432,664**	**2,552,402**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3 Amounts arising from ECL (Continued)

	2023			
	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Outstanding commitments and contingent liabilities	(4,795)	-	-	**(4,795)**
Balance as at 1 January	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	(5,943)	-	-	**(5,943)**
New financial assets originated or purchased	4,795	-	-	**4,795**
Financial assets that have been derecognised	(4,795)	-	-	**(4,795)**
Write-offs	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Balance as at 31 December	**(5,943)**	-	-	**(5,943)**

	2022			
	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Outstanding commitments and contingent liabilities				
Balance as at 1 January	29,205	-	-	**29,205**
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated or purchased	1,107	-	-	**1,107**
Financial assets that have been derecognised	(38,793)	-	-	**(38,793)**
Write-offs	-	-	-	-
Foreign exchange and other movements	3,686	-	-	**3,686**
Balance as at 31 December	**(4,795)**	-	-	**(4,795)**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3 Amounts arising from ECL (Continued)

The following tables set out information about the credit quality of financial assets measured at amortised cost, lease receivables and FVOCI debt investments without taking into account collateral or other credit enhancement. Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts.

Debt investment securities at amortised cost	Stage 1: 12-month ECL	2023 Total KShs'000	2022 Total KShs'000
Balance as at 1 January		17,596	16,996
Financial assets that have been derecognised		-	(3,098)
New financial assets originated or purchased		-	3,698
Balance as at 31 December		**17,596**	**17,596**

Placements from other banking institutions	Stage 1: 12-month ECL	2023 Total KShs'000	2022 Total KShs'000
Balance as at 1 January		726	541
Financial assets that have been derecognised		(726)	(541)
New financial assets originated or purchased		726	726
Balance as at 31 December		**726**	**726**

Balances from Group banks	Stage 1: 12-month ECL	2023 Total KShs'000	2022 Total KShs'000
Balance as at 1 January		376	2,998
Financial assets that have been derecognised		(376)	(2,998)
New financial assets originated or purchased		376	376
Balance as at 31 December		**376**	**376**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3 Amounts arising from ECL (Continued)

The loss allowance on outstanding commitments and contingent liabilities, debt investment, placement from other banking institutions and that from Group Bank has been recorded in miscellaneous expenses.

The following table provides a reconciliation between:
- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and the 'impairment losses on financial instruments' line item in the statement of profit or loss and other comprehensive income.

2023	Loans and advances to customers KShs'000	Outstanding commitments and contingent liabilities KShs'000	Balances due from Other Banks KShs'000	Balances due from banking institution KShs'000	Investment securities KShs'000	Other assets: receivable balances KShs'000	Total KShs'000
Net remeasurement of loss allowance	-	(5,943)	-	-	-	-	(5,943)
New financial assets originated or purchased	(773,083)	-	-	-	-	-	(773,083)
Total	(773,083)	(5,943)	-	-	-	-	(779,026)
Recoveries of amounts previously written off	29,694	-	-	-	-	-	29,694
Total	**(743,389)**	**(5,943)**	**-**	**-**	**-**	**-**	**(749,332)**

2022	Loans and advances to customers KShs'000	Outstanding commitments and contingent KShs'000	Balances due from Other Banks KShs'000	Balances due from banking institution KShs'000	Investment securities KShs'000	Other assets: receivable balances KShs'000	Total KShs'000
Net remeasurement of loss allowance	15,240	-	-	-	-	-	15,240
New financial assets originated or purchased	(639,743)	1,107	(185)	2,622	(600)	-	(636,799)
Total	(624,503)	1,107	(185)	2,622	(600)	-	(621,559)
Recoveries of amounts previously written off	25,660	-	-	-	-	-	25,660
Total	**(598,843)**	**1,107**	**(185)**	**2,622**	**(600)**	**-**	**(595,899)**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.4 Concentration of risks of financial assets with credit exposure

All financial instruments' carrying amounts as per the statement of financial position represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements.
Off balance sheet items carrying amounts represents the maximum exposure to credit risk without taking into account any collateral held or other credit enhancements as disclosed in note 31.

Carrying amounts		**2023**			**2022**
By economic sector	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	**Total**
Loans and advances to customers	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Building and Construction	1,117,993	207,125	51,298	1,376,416	2,485,733
Manufacturing	1,190,162	6,912	38,047	1,235,121	2,222,506
Personal Services	2,135,761	311,625	929,296	3,376,682	4,139,648
Trade	3,039,892	309,581	1,235,494	4,584,967	6,346,995
Transport and Communication	1,094,269	509,326	1,944,724	3,548,319	3,741,033
Others	4,178,582	230,202	464,901	4,873,685	2,449,799
Less loss allowance	(20,440)	(75,669)	(2,066,508)	(2,162,617)	(2,552,402)
Total on balance sheet	**12,736,219**	**1,499,102**	**2,597,252**	**16,832,573**	**18,833,312**
Acceptances and letters of credit	334,263	-	-	334,263	239,377
Guarantees and performance bonds	7,045,380	-	-	7,045,380	7,252,665
Unutilized lines of Credit	1,248,840	-	-	1,248,840	1,129,803
Outstanding commitments and contingent liabilities	**8,628,483**	**-**	**-**	**8,628,483**	**8,621,845**
	21,364,702	**1,499,102**	**2,597,252**	**25,461,056**	**27,455,157**

Carrying amounts	**Note**	**2023 Stage 1 KShs'000**	**2022 Stage 1 KShs'000**
Banks (Both Bank and non-Bank)	15,16	10,666,111	5,849,386
Kenya Government Investment Securities	18(b)	12,959,504	14,562,964

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.5 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and banks, and to industries and countries.

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 Banks of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sublimit covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default. Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the previous period.

A portion of the Banks financial assets originated by the mortgage business has sufficiently low "loan to value" ratios, which results in a no loss allowance being recognised in accordance with the Banks expected credit loss model. The Bank closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below.

The Loan to Value (LTV) is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

The Bank updates the valuation of security values held against exposures to customers on a quarterly basis. Formal valuations are performed on a need be basis when:

- Loans are advanced to finance specific projects.

4. Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Risk limit control and mitigation policies (continued)

— The loan is put on a watch list and monitored more closely; or

— The loan is credit impaired and the valuation provides input into determining the credit risk actions.

The table below sets out the carrying amount and the forced sale value of the identifiable collateral held against loans and advances to customers measured at amortised cost, other than reverse sale-and purchase agreements. For each loan the disclosed collateral is capped at the nominal amount of the loan that it is held against.

		2023		2022
	Carrying Amount KShs'000	Collateral KShs'000	Outstanding Amount KShs'000	Collateral KShs'000
Stage 1 and 2	14,235,321	32,578,210	15,945,207	10,228,944
Stage 3	2,597,252	3,767,358	2,888,105	2,959,106
	16,832,573	**36,345,568**	**18,833,312**	**13,188,050**

The Bank has a credit enhancement arrangement with The African Guarantee Fund (AGF) and the International Finance Corporation (IFC) to underwrite facilities granted specifically to the Small & Medium Enterprises (SME's) segment of the market by use of a guarantee agreement. For each of the loans under the agreement the risk exposure is capped at 50 percent of the outstanding amount.

	2023 KShs'000	2022 KShs'000
Corporate	7,564,593	8,999,654
Retail	3,857,870	4,152,704
Small & Medium Enterprises	5,410,110	5,680,954
Balance as at Dec 2023	**16,832,573**	**18,833,312**
SME facilities under AGF	721,060	771,681
SME facilities under IFC	699,881	610,961

(b) Lending limits (for derivative and loan books)

The Bank maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

(c) Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

4. Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Risk limit control and mitigation policies (continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants). The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

4.2 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives.

Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

The Bank's liquidity management process, as carried out within the Bank and monitored by the Assets and Liabilities Committee (ALCO) includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

A key measure of liquidity risk is the ratio of net liquid assets to deposit liabilities. The Central Bank of Kenya requires banks to maintain a statutory minimum ratio of 20% of liquid assets to all its deposit liabilities. For this purpose, liquid assets comprise cash and balances with Central Bank of Kenya, net loans and advances with banks, treasury bonds and bills and net balances with banks abroad. Deposit liabilities comprise deposits from customers and other liabilities that have matured or maturing within 91 days.

The Bank also monitors on a regular basis the advances to deposits ratio. This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advance to deposits ratio demonstrates that customer deposits exceed customer loans resulting from the emphasis placed on generating a high level of stable funding from customers.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

4. Financial risk management (Continued)

4.2 Liquidity risk (Continued)

Non-derivative financial liabilities and assets held for managing liquidity risk

Balance at 31 December 2023	Months			Years		
	Up to 1 KShs'000	1 to 3 KShs'000	3 to 12 KShs'000	1 to 5 KShs'000	>5 KShs'000	Total KShs'000
Customer deposits	26,343,204	3,418,211	3,367,624	-	-	33,129,039
Interest payable on customer deposits	19,492	59,660	218,500	-	-	297,652
Deposits and balances due to banking institutions (Note 24)	2,599,767	-	-	-	-	2,599,767
Amounts due to Group Banks (Note 16 (b))	6,346,405	-	-	-	-	6,346,405
Borrowings (Note 26)	-	-	-	2,913,944	-	2,913,944
Interest payable on borrowings	-	-	168,632	309,708	-	478,340
Other liabilities (Note 27)	207,037	-	-	-	-	207,037
Other liabilities- lease liabilities (Note 19)	-	-	20,797	549,214	213,906	783,917
Total financial liabilities (contractual maturity dates)	**35,515,905**	**3,477,871**	**3,775,553**	**3,772,866**	**213,906**	**46,756,101**
Assets held for managing liquidity (contractual maturity dates)	**20,065,255**	**3,768,745**	**2,979,135**	**14,776,602**	**5,110,626**	**46,700,363**

Balance at 31 December 2022	Months			Years		
	Up to 1 KShs'000	1 to 3 KShs'000	3 to 12 KShs'000	1 to 5 KShs'000	>5 KShs'000	Total KShs'000
Customer deposits	25,379,551	3,843,413	3,510,416	-	-	32,733,380
Interest payable on customer deposits	14,401	95,975	168,196	-	-	278,572
Deposits and balances due to banking institutions (Note 25)	1,003,863	-	-	-	-	1,003,863
Amounts due to Group Banks (Note 16 (b))	7,348,418	-	-	-	-	7,348,418
Borrowings (Note 27)	-	-	-	-	1,001,911	1,001,911
Interest payable on borrowings	28,897	-	-	-	317,079	345,976
Other liabilities (Note 28)	356,165	-	-	-	-	356,165
Other liabilities- lease liabilities (Note 19)	-	-	1,648	683,640	216,107	901,395
Total financial liabilities (contractual maturity dates)	**34,131,295**	**3,939,388**	**3,680,260**	**683,640**	**1,535,097**	**43,969,680**
Assets held for managing liquidity (contractual maturity dates)	**11,354,884**	**4,921,417**	**6,231,316**	**13,385,737**	**7,927,676**	**43,821,030**

4. Financial risk management (Continued)

4.2 Liquidity risk (Continued)

Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

— Cash and balances with Central Bank;
— Loans and advances to customers;
— Government bonds and other securities that are readily acceptable in repurchase agreement with Central Banks; and
— Secondary sources of liquidity in the form of highly liquid instruments in the Bank's trading portfolios.

4.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated with the Bank's Treasury and monitored by two teams separately. Regular reports are submitted to the Assets and Liabilities Committee (ALCO), Heads of each business unit and the Board of Directors.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's Retail and Enterprise banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale financial assets.

Overall authority for market risk for both trading and non-trading portfolios is vested in Assets and Liabilities Committee (ALCO). The bank's Risk department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The tables below summarise the Bank's exposure to foreign currency exchange rate risk as at 31 December 2023 and 2022. Included in the table are the Bank's financial instruments categorised by currency:

4. Financial risk management (Continued)

4.3 Market risk (Continued)

Foreign exchange risk (continued)

Balance at 31 December 2023	USD KShs'000	GBP KShs'000	EUR KShs'000	Others KShs'000	Total KShs'000
Assets					
Cash and Balances with Central Bank	3,250,001	159,076	108,563	2,508	3,520,148
Placements with banks	5,034,252	109,477	310,113	8,862	5,462,704
Amounts due from group companies	1,239,261	1,997	2,463,354	5,315	3,709,927
Loans and advances	5,783,060	9,117	209,717	5	6,001,899
Other assets	49,297	-	4,662	114	54,073
Total financial assets	**15,355,871**	**279,667**	**3,096,409**	**16,804**	**18,748,751**
Liabilities					
Customer deposits	9,026,114	235,897	2,804,389	2,210	12,068,610
Deposits and balances due to banking institutions	2,049,115	-	-	-	2,049,115
Amounts due to group banks	6,275,908	64,613	-	-	6,340,521
Borrowings	1,576,421	-	1,337,523	-	2,913,944
Other liabilities	79,560	-	72,737	307	152,604
Total financial liabilities	**19,007,118**	**300,510**	**4,214,649**	**2,517**	**23,524,794**
Net on-balance sheet position	**(3,651,247)**	**(20,843)**	**(1,118,240)**	**14,287**	**(4,776,043)**
Net off-balance sheet position	3,141,758	-	631,526	901,754	4,675,038
Net overall position	**(509,489)**	**(20,843)**	**(486,714)**	**916,041**	**(101,005)**

Balance at 31 December 2022	USD KShs'000	GBP KShs'000	EUR KShs'000	Others KShs'000	Total KShs'000
Assets					
Cash and Balances with Central Bank	1,904,279	43,883	125,859	1,647	2,075,668
Placements with banks	1,044,889	44,842	113,214	12,451	1,215,396
Amounts due from group companies	2,135,174	105,619	580,408	6,711	2,827,912
Loans and advances	7,962,297	12,252	200,856	1	8,175,406
Other assets	18,577	388	7,422	389	26,776
Total financial assets	**13,065,216**	**206,984**	**1,027,759**	**21,199**	**14,321,158**
Liabilities					
Customer deposits	4,615,737	188,093	1,900,706	12,341	6,716,877
Deposits and balances due to banking institutions	699,713	-	-	3,838	703,551
Amounts due to group banks	7,301,032	-	45,265	-	7,346,297
Borrowings	-	-	1,001,911	-	1,001,911
Other liabilities	9,807	388	12,644	-	22,839
Total financial liabilities	**12,626,289**	**188,481**	**2,960,526**	**16,179**	**15,791,475**
Net on-balance sheet position	**438,927**	**18,503**	**(1,932,767)**	**5,020**	**(1,470,317)**
Net off-balance sheet position	2,658,843	(29,743)	2,448,030	943,033	6,020,163
Net overall position	**3,097,770**	**(11,240)**	**515,263**	**948,053**	**4,549,846**

4. Financial risk management (Continued)

4.3 Market risk (Continued)

Foreign exchange risk (continued)

Foreign exchange risk sensitivity analysis

At 31 December 2023 if the shilling had strengthened or weakened by 5% against major trading currencies, with other variables held constant, the impact on after tax profit or loss / equity would have been as shown below. This analysis is performed on the same basis for 2022.

	2023		2022	
	KShs'000	KShs'000	KShs'000	KShs'000
	+5% movement	-5% movement	+5% movement	-5% movement
Profit/ (loss) before tax	238,802	(238,802)	73,516	(73,516)
Tax charge (30%)	(71,641)	71,641	(22,055)	22,055
Effect on profit for the year	**167,161**	**(167,161)**	**51,461**	**(51,461)**

5% sensitivity rate represents management's assessment of the reasonable possible change in foreign exchange rates.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing and value at risk that may be undertaken, which is monitored daily by Bank Treasury.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts (non-derivatives), categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear any interest rate risk on off balance sheet items.

4. Financial risk management (Continued)

4.3 Market risk (Continued)

Interest rate risk (continued)

Balance at 31 December 2023	Effective interest rate	Month Up to 1 KShs'000	1 to 3 KShs'000	3 to 12 KShs'000	>12 KShs'000	Non-interest Bearing KShs'000	Total KShs'000
Cash and balances with Central Bank (Note 13)	-	-	-	-	-	5,374,640	5,374,640
Investment in government securities (Note 18(b))	10.9%	954,308	2,247,406	438,443	9,319,347	-	12,959,504
Placements with banks (Note 15)	8.4%	6,498,642	457,542	-	-	-	6,956,184
Amounts due from group banks (Note 16(a))	6.3%	3,238,492	471,435	-	-	-	3,709,927
Other assets (Note 23)	-	-	-	-	-	688,781	688,781
Investment securities-FVOCI (Note 18 (a))	-	-	-	-	-	27,921	27,921
Loans and advances (Note 17)	11.6%	3,131,638	592,362	13,108,573	-	-	16,832,573
Total financial assets		**13,823,080**	**3,768,745**	**13,547,016**	**9,319,347**	**6,091,342**	**46,549,530**
Customer deposits (Note 25)	3.7%	26,343,204	3,418,211	3,367,624	-	-	33,129,039
Deposits and balances due to banking institutions (Note 24)	8.6%	2,599,767	-	-	-	-	2,599,767
Amounts due to group banks (Note 16(b))	5.1%	6,346,405	-	-	-	-	6,346,405
Borrowings (Note 26)	5.6%	-	-	-	2,913,944	-	2,913,944
Other liabilities (Note 27)	-	-	-	-	-	207,037	207,037
Total financial liabilities		**35,289,376**	**3,418,211**	**3,367,624**	**2,913,944**	**207,037**	**45,196,192**
Effect of derivatives		-	38,044	88,769	(126,813)	-	-
Interest sensitivity gap		**(21,466,296)**	**388,578**	**10,268,161**	**6,278,590**	**5,884,305**	**1,353,338**

4. Financial risk management (Continued)

4.3 Market risk (Continued)

Interest rate risk (continued)

Balance at 31 December 2022	Effective interest rate	Up to 1 KShs'000	Month 1 to 3 KShs'000	3 to 12 KShs'000	>12 KShs'000	Non-interest Bearing KShs'000	Total KShs'000
Cash and balances with Central Bank (Note 13)	-	-	-	-	-	3,838,913	3,838,913
Investment in government securities (Note 18(b))	10.5%	796,046	1,163,169	1,569,317	11,034,432	-	14,562,964
Placements with banks (Note 15)	4.2%	2,898,388	123,462	-	-	-	3,021,850
Amounts due from group banks (Note 16(a))	2.4%	1,142,780	620,121	1,064,635	-	-	2,827,536
Other assets (Note 24)	-	-	-	-	-	538,457	538,457
Investment securities-FVOCI (Note 18 (a))	-	-	-	-	-	9,674	9,674
Loans and advances (Note 17)	10.0%	1,942,302	3,014,665	13,876,345	-	-	18,833,312
Total financial assets		**6,779,516**	**4,921,417**	**16,510,297**	**11,034,432**	**4,387,044**	**43,632,706**
Customer deposits (Note 26)	3.7%	25,379,551	3,843,413	3,510,416	-	-	32,733,380
Deposits and balances due to banking institutions (Note 25)	3.4%	1,003,863	-	-	-	-	1,003,863
Amounts due to group banks (Note 16(b))	2.9%	7,348,418	-	-	-	-	7,348,418
Borrowings (Note 27)	5.8%	-	-	-	1,001,911	-	1,001,911
Other liabilities (Note 28)	-	-	-	-	-	342,814	342,814
Total financial liabilities		**33,731,832**	**3,843,413**	**3,510,416**	**1,001,911**	**342,814**	**42,430,386**
Effect of derivatives		-	12,209	28,486	(40,695)	-	-
Interest sensitivity gap		(26,952,316)	1,090,213	13,028,367	9,991,826	4,044,230	1,202,320

4. Financial risk management (Continued)

4.3 Market risk (Continued)

Interest rate risk (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Interest rate risk sensitivity analysis

At 31 December 2023 if interest rates were to increase or decrease by 2.5% which reflects the movement in the yield curve in the local market for the year, with other variables held constant, the impact on after tax profit or loss / equity would have been as shown below. This analysis is performed on the same basis for 2022.

	2023		2022	
	KShs'000	KShs'000	KShs'000	KShs'000
	+2.5% movement	-2.5% movement	+2.5% movement	-2.5% movement
Profit/ (loss) before tax	113,274	(113,274)	71,048	(71,048)
Tax charge (30%)	(33,982)	33,982	(21,314)	21,314
Effect on profit for the year	**79,292**	**(79,292)**	**49,734**	**(49,734)**

4. Financial risk management (Continued)

4.4 Fair value of financial instruments

(a) Classification and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest):

	Note	Carrying value				Fair value hierarchy			
		FVOCI	FVTPL	Amortised cost	Total	Level 1	Level 2	Level 3	Total
		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Balance at 31 December 2023									
Financial assets measured at fair value									
Derivative assets held for risk management	14	-	279,350	-	279,350	-	279,350	-	**279,350**
Investment securities - FVOCI	18 (a)	27,921	-	-	27,921	-	27,921	-	**27,921**
Investments in government securities	18 (b)	426,802			426,802		426,802	-	**426,802**
		454,723	**279,350**	**-**	**734,073**	**-**	**734,073**	**-**	**734,073**
Financial assets not measured at fair value									
Cash and balances with Central bank	13	-	-	5,374,640	**5,374,640**	-	5,374,640	-	**5,374,640**
Due from other banking institutions	15	-	-	6,956,184	**6,956,184**	-	6,956,184	-	**6,956,184**
Investments in government securities	18 (b)	-	-	12,532,702	**12,532,702**	-	11,461,312	-	**11,461,312**
Loans and advances to customers	17	-	-	16,832,573	**16,832,573**	-	14,235,321	2,597,252	**16,832,573**
Other Assets	22			688,781	**688,781**	-	688,781	-	**688,781**
Due from group banks	16 (a)	-	-	3,709,927	**3,709,927**	-	3,709,927	-	**3,709,927**
		-	**-**	**46,094,807**	**46,094,807**	**-**	**42,426,165**	**2,597,252**	**45,023,417**
Total financial assets		**454,723**	**279,350**	**46,094,807**	**46,828,880**	**-**	**43,160,238**	**2,597,252**	**45,757,490**
Financial liabilities measured at fair value									
Derivative assets held for risk management	14								
Financial liabilities not measured at fair value									
Customer deposits	25	-	-	33,129,039	**33,129,039**	-	33,129,039	-	**33,129,039**
Due to other banking institutions	24	-	-	2,599,767	**2,599,767**	-	2,599,767	-	**2,599,767**
Due to group banks	16 (b)	-	-	6,346,405	**6,346,405**	-	6,346,405	-	**6,346,405**
Borrowings	26	-	-	2,913,944	**2,913,944**	-	-	2,974,670	**2,974,670**
Other liabilities – Bills payable	27	-	-	207,037	**207,037**	-	207,037	-	**207,037**
Total financial liabilities		**-**	**-**	**45,196,192**	**45,196,192**	**-**	**42,282,248**	**2,974,670**	**45,256,918**

4. Financial risk management (Continued)

4.4 Fair value of financial instruments (Continued)

(a) Classification and fair values (Continued)

	Note	Carrying value				Fair value hierarchy			
		FVOCI	FVTPL	Amortised cost	Total	Level 1	Level 2	Level 3	Total
		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Balance at 31 December 2022									
Financial assets measured at fair value									
Derivative assets held for risk management	14	-	46,688	-	**46,688**	-	46,688	-	**46,688**
Investment securities - FVOCI	18 (a)	9,674	-	-	**9,674**	-	9,674	-	**9,674**
Investments in government securities	18 (b)	483,738	-	-	**483,738**	-	483,738	-	**483,738**
		493,412	**46,688**	**-**	**540,100**	**-**	**540,100**	**-**	**540,100**
Financial assets not measured at fair value									
Cash and balances with Central bank	13	-	-	3,838,913	**3,838,913**	-	3,838,913	-	3,838,913
Due from other banking institutions	15	-	-	3,021,850	**3,021,850**	-	3,021,850	-	3,021,850
Investments in government securities	18 (b)	-	-	14,079,226	**14,079,226**	-	14,059,250	-	14,059,250
Loans and advances to customers	17	-	-	18,833,312	**18,833,312**	-	15,945,207	2,888,105	18,833,312
Other Assets	22			538,457	**538,457**	-	538,457	-	538,457
Due from group banks	16 (a)	-	-	2,827,536	**2,827,536**	-	2,827,536	-	2,827,536
		-	-	43,139,294	**43,139,294**	-	40,231,213	2,888,105	43,119,318
Total financial assets		**493,412**	**46,688**	**43,139,294**	**43,679,394**	**-**	**40,771,313**	**2,888,105**	**43,659,418**
Financial liabilities measured at fair value									
Derivative assets held for risk management	14	-	-	-	-	-	-	-	-
Financial liabilities not measured at fair value		-	-	-	-	-	-	-	-
Customer deposits	26	-	-	32,733,380	**32,733,380**	-	32,733,380	-	32,733,380
Due to other banking institutions	25	-	-	1,003,863	**1,003,863**	-	1,003,863	-	1,003,863
Due to group banks	16 (b)	-	-	7,348,418	**7,348,418**	-	7,348,418	-	7,348,418
Borrowings	27	-	-	1,001,911	**1,001,911**	-	-	1,001,930	1,001,930
Other liabilities – Bills payable	28	-	-	356,165	**356,165**	-	356,165	-	356,165
Total financial liabilities		**-**	**-**	**42,443,737**	**42,443,737**	**-**	**41,441,826**	**1,001,930**	**42,443,756**

4. Financial risk management (Continued)

4.4 Fair value of financial instruments (Continued)

(b) Measurement of fair values

Financial instruments measured at fair value

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Nairobi Security Exchange) and exchanges traded derivatives like futures (for example, Nasdaq).

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like SOFR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

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

Cash and balances with Central Bank of Kenya

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

Deposits and advances to banks

Deposits and advances to banks include inter-bank placements and items in the course of collection.
The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining term to maturity. All loans and advances to banks are classified as level 2 under the fair value hierarchy table.

Loans and advances to customers

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

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4. Financial risk management (Continued)

4.4 Fair value of financial instruments (Continued)

(b) Measurement of fair values (continued)

Unquoted equity securities

These comprise investment securities held at FVOCI. The fair value for these assets is estimated using market prices and earnings multiples of quoted securities of comparable companies.

Investments in government securities

Investments in government securities are measured at amortised cost using the effective interest method. The estimated fair value represents the discounted amount of future cash flows expected to be received.

Deposits from banks and customers

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

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

4.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

- to comply with the capital requirements set by the Central Bank of Kenya;
- to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis.

The Central Bank of Kenya requires each bank to: (a) hold the minimum level of regulatory capital of KShs 1 Billion; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10.5%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items.

The bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (core capital): share capital, share premium, plus retained earnings.
- Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of the credit risk associated with – each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

4. Financial risk management (Continued)

4.5 Capital management (Continued)

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2023 and 2022. As at 31 December 2023, the Bank was compliant with all its capital ratios except investment in land and buildings to core capital ratio as outlined below. The regulator has been informed and updated of the corrective measures being undertaken.

Tier 1 capital (Core capital)	**2023 KShs'000**	**2022 KShs'000**
Share capital	7,927,449	7,927,449
Share premium	1,980,356	1,980,356
Retained earnings	(4,853,164)	(5,098,769)
Investment in equity	(25,733)	(7,486)
Deferred tax asset[1]	(2,096,208)	(2,199,760)
	2,932,700	**2,601,790**
Tier 2 capital		
Subordinated debt[2]	1,280,999	937,260
Statutory reserves	311,537	304,281
	1,592,536	**1,241,541**
Total regulatory capital	**4,525,236**	**3,843,331**
Risk weighted assets		
On balance sheet- Credit risk	18,043,464	19,338,993
Off balance sheet- Credit risk	2,393,530	1,627,012
Market and Operational risk	4,485,931	3,376,461
Total risk weighted assets	**24,922,925**	**24,342,466**
Deposit liabilities	33,986,964	33,422,001
Capital ratios		
Core Capital/total deposit liabilities (CBK minimum 8%) (2022: 7.8%)	8.6%	7.8%
Core Capital/Total risk weighted assets (CBK minimum 10.5%) (2022: 10.7%)	11.8%	10.7%
Total Regulatory Capital/Total risk weighted assets (CBK minimum 14.5%) (2022: 15.8%)	18.2%	15.8%
Investment in Land and Buildings ratio		
Investment in land and buildings/Core capital (CBK maximum 20%) (2022: 35.5%)	31.1%	35.5%
Investment in Financial Institutions ratio		
Investment in financial institutions/Core capital (CBK maximum 25%) (2022: 0.3%)	0.9%	0.3%
Single Borrower Limit/ Core Capital (CBK maximum 25%) (2022: 24.1%)	20.4%	24.1%

[1] Deferred tax assets (DTAs) are deducted from Tier 1 capital as per the 2013 Central Bank of Kenya Prudential Guidelines (CBK/PG/003). DTAs relating to temporary differences such as allowance for credit losses can only be recognized up to a limit of 10% of the institution's core capital.

[2] Subordinated Debt includes issued and paid-in unsecured debt instruments having a maturity of at least five years. Principal should be re-payable after at least five years as per the 2013 Central Bank of Kenya Prudential Guidelines (CBK/PG/003).

5. Interest income

	2023 KShs'000	2022 KShs'000
Loans and advances to banks	445,813	204,833
Loans and advances to customers	1,997,733	1,718,761
Investment in government securities at amortised cost	1,441,808	1,237,918
Investment in government securities at FVOCI	60,165	60,165
Derivatives in qualifying hedging relationship	12,644	8,583
Total interest income calculated using the effective interest method	**3,958,163**	**3,230,260**

Included in interest income on loans and advances to customers is KShs 235 million in 2023 relating to interest accrued on impaired loans and advances (KShs 231 million in 2022).

6. Interest expense

	2023 KShs'000	2022 KShs'000
Deposits from banks	112,793	69,606
Customer deposits	1,211,412	1,090,033
Borrowed funds	25,328	-
Subordinated debt	98,359	66,013
Interest expense on lease liabilities (Note 19)	32,101	34,915
Derivatives expense	359,692	218,583
Total interest expense calculated using the effective interest method	**1,839,685**	**1,479,150**

7. Net fee and commission income

Trade finance related fees and commissions	76,303	84,610
Credit related fees and commissions	51,889	108,604
Service-related fees and commissions	352,792	300,526
Fee and commission income	**480,984**	**493,740**
Fees and commission paid	(18,211)	(14,444)
Net fee and commission income	**462,773**	**479,296**

Fees and commissions income from contracts with customers in scope of IFRS 15 have been disaggregated by major type of services. They are measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms and the related revenue recognition policies.

Type of service	Nature of timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Trade finance service	The Bank provides trade finance services to corporate, SME and retail customers. Trade finance fees are charged when the transaction takes place.	Revenue from trade finance is recognized at a point in time when the services are provided.
Credit related services	The Bank provides credit related services including loan administration, securities underwriting and provision of overdraft (O/D) facilities. Fees from term loans are charged once the transaction takes place. Fees on O/D are charged annually at the beginning of the year on renewal of credit lines.	Revenue from credit related services is recognized over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

7. Net fee and commission income (Continued)

Account services	The Bank provides banking services including account management, execution of client transactions, debit card and other account services. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail, SME and corporate clients with approvals from the Central Bank of Kenya (CBK). Transaction based fees are charged to the customer's account when the transaction takes place.	Revenue from account services is recognized at a point in time when the services are provided. Revenue related to transactions is recognized at the point in time when the transaction takes place.

8. Other operating income

	2023 KShs'000	2022 KShs'000
Dividends received	-	11,205
Rental income	21,064	18,990
Other (loss)/ income	(1,737)	5,084
	19,327	**35,279**

Rental income relates to income received from leases on the fourth and fifth floors of BOA House while other (loss)/income relates to written off assets in Kisii branch after it was closed in 2023.

9. Staff costs

	2023 KShs'000	2022 KShs'000
Salaries and wages	693,899	645,809
Retirement benefit costs		
– Defined contribution pension scheme	43,194	46,159
– National Social Security Fund	4,322	820
Staff medical costs	60,377	59,781
Staff training costs	11,737	10,315
Other staff costs	115,095	86,149
	928,624	**849,033**

The number of employees of the Bank as at 31 December 2023 was 368 (2022: 339). Other staff costs comprise of staff welfare costs, leave provisions, performance-based incentives among others.

10. Depreciation and amortisation

	2023 KShs'000	2022 KShs'000
Depreciation of property and equipment (Note 20)	98,275	103,973
Amortisation of intangible assets (Note 21)	70,074	63,389
Right-of-use asset depreciation (Note 19)	157,582	160,860
	325,931	**328,222**

11.	**Other operating costs**	**2023 KShs'000**	**2022 KShs'000**
	Directors' expenses	23,592	21,458
	Auditor's remuneration	9,864	9,864
	Marketing and advertisement costs	50,033	42,533
	Property occupancy costs	111,392	119,970
	Software licences annual maintenance fees	173,726	192,492
	Computer hardware maintenance	13,216	12,942
	Depositors' protection fund premiums	52,855	54,713
	Communication costs	77,255	78,549
	Office administrative costs	181,641	196,543
	Other costs	265,958	243,622
		959,532	**972,686**

Other costs mainly consist of BOA Group recharges (see Note 16 (d) i.e technical assistance fees), professional fees, operational losses, transport costs, and stationery costs. Directors' expenses include salaries and non-cash benefits.

12.	**Taxation**	**2023 KShs'000**	**2022 KShs'000**
	Current income tax:		
	Current income tax	2,886	3,344
	Deferred tax:		
	Prior year underprovision deferred income tax (Note 22)	(274)	552
	Deferred tax movement (Note 22)	92,238	83,622
		94,850	**87,518**

The effective rax rate (ETR) for the year ended 31 December 2023 is 25.3% (2022: 31.0%).

Current income tax recoverable	**2023 KShs'000**	**2022 KShs'000**
Balance at 1 January	(434,702)	(435,093)
Charge for the year	2,886	3,344
Prior year overprovision current income tax	301	-
Tax paid	(4,149)	(2,953)
Balance at 31 December	**(435,664)**	**(434,702)**

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

Profit / (loss) before income tax	375,816	282,588
Tax calculated at the statutory income tax rate of 30% (2022: 30%)	112,745	84,776
Tax effect of:		
Income not subject to tax	(29,518)	(7,875)
Expenses not deductible for tax purposes	11,897	10,065
Prior year (under)/ overprovision of deferred tax	(274)	552
Income tax expense/(credit)	**94,850**	**87,518**

13. Cash and balances with Central Bank

	2023 KShs'000	2022 KShs'000
Cash in hand	673,883	653,890
Balances with Central Bank:		
Cash reserve	1,358,871	1,369,032
Other current accounts	3,341,886	1,815,991
	5,374,640	**3,838,913**

The cash reserve with Central Bank of Kenya (CBK) is non-interest earning and is based on the value of deposits as adjusted for CBK requirements. The cash reserve is restricted for withdrawal and as such does not form part of cash and cash equivalent (see note 32). At 31 December 2023, the cash reserve ratio requirement was 4.25% of eligible deposits (2022: 4.25%). Other current accounts relate to balances held in CBK net of CRR.

14. Derivative assets and liabilities held for risk management

	2023 KShs'000	2022 KShs'000
Interest rate derivative contracts	126,813	40,695
Forward exchange contracts	152,537	5,993
	279,350	**46,688**

The types of derivatives used by the bank are set out below. The table analyses the notional principal amounts and the positive (assets) and negative (liabilities) fair values of the derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

	2023			2022		
	Notional principal amounts KShs'000	Assets KShs'000	Liabilities KShs'000	Notional principal amounts KShs'000	Assets KShs'000	Liabilities KShs'000
Interest rate derivative contracts	378,398	514,282	(387,469)	85,440	126,417	(85,722)
Forward exchange contracts	14,865,774	14,865,774	(14,713,236)	6,214,606	8,267,923	(8,261,736)
	15,244,172	**15,380,056**	**(15,100,705)**	**6,300,046**	**8,394,340**	**(8,347,458)**

	Maturity 2023			Maturity 2022		
Notional principal amounts	Less than 1 year KShs'000	1- 5 years KShs'000	More than 5 years KShs'000	Less than 1 year KShs'000	1- 5 years KShs'000	More than 5 years KShs'000
Interest rate derivative contracts	126,813	-	-	40,695	-	-
Average fixed interest rate	9.3%	-	-	8.2%	-	-
Forward exchange contracts	14,865,774	-	-	6,214,606	-	-
Average GBP:EUR exchange rate	1.15	-	-	1.13	-	-
Average USD:KES exchange rate	156.75	-	-	123.30	-	-
Average EUR:USD exchange rate	1.11	-	-	1.07	-	-

15. Due from other banking institutions

	2023 KShs'000	2022 KShs'000
Placements	2,908,254	2,053,394
Current account balances due from other banks	4,047,930	968,456
	6,956,184	**3,021,850**
Maturing within 90 days	6,956,184	3,021,850
Maturing after 90 days	-	-
	6,956,184	**3,021,850**

16. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one-party controls both. The Bank is controlled by BOA Group S.A. incorporated in Luxembourg with its ultimate parent being BMCE Bank incorporated in Morocco. There are other companies which are related to Bank of Africa Kenya Limited through common shareholdings or common directorships.

In the normal course of business, current accounts are operated and placement of foreign currency balances are made with the parent company and other Bank companies at interest rates in line with the market. The relevant balances are shown below:

(a) Amounts due from Group Banks

	2023 KShs'000	2022 KShs'000
Bank of Africa Uganda	53,463	41,167
Bank of Africa Tanzania	1,079,445	1,482,151
Bank of Africa France	-	131,185
Bank of Africa Ghana	-	620,121
Bank of Africa Madagascar	-	-
BMCE International	115,283	98
BMCE Bank Banque Offshore	1	1
BMCE France	2,444,636	-
Bank of Africa Togo	-	9,895
Bank of Africa Rwanda	690	1,016
Bank of Africa Benin	16,409	2,538
Medi Capital Bank London	-	539,364
	3,709,927	**2,827,536**
Maturing within 90 days	3,709,927	1,762,901
Maturing after 90 days	-	1,064,635
	3,709,927	**2,827,536**
Placements	1,024,209	2,595,706
Current account balance	2,685,718	232,206
	3,709,927	**2,827,912**
Interest income earned on the above	106,385	79,224
Ledger fees earned on the above	454	564

16. Related party transactions (Continued)

(b) Amounts due to Group Banks

	2023 KShs'000	2022 KShs'000
Bank of Africa Madagascar	1,619,043	5,108,132
Bank of Africa Uganda	59,896	411,275
Bank of Africa Tanzania	3,892	1,898
Banque de Credit de Bujumbura	73,907	46,890
Bank of Africa RDC	16,197	18,487
Bank of Africa Ghana	4,712	3,617
Bank of Africa Togo	91,302	1,215
Bank of Africa Niger	136,240	235,589
Bank of Africa France	406,694	38,180
Bank of Africa Mer Rouge	3,913,393	1,478,153
Bank of Africa Rwanda	18,498	4,416
Medi Capital Bank London	2,631	566
	6,346,405	**7,348,418**
Maturing within 90 days	6,346,405	7,348,418
Interest expense incurred on the above	54,681	31,372

(c) Investments in Group related companies

	2023 KShs'000	2022 KShs'000
Bank of Africa France (Note 18 (a))	25,733	7,486
	25,733	**7,486**

(d) Expenses incurred within the BOA Group

	2023 KShs'000	2022 KShs'000
Technical assistance fees paid to African Financial Holdings (AFH)	92,571	97,668
Technical assistance fees paid to Pan African Solutions Services (PASS)	160,040	167,147
	252,611	**264,815**

(e) Loans to key management and directors

	2023 KShs'000	2022 KShs'000
Key management (excluding directors)	65,770	69,591
Directors		-

Advances to customers as at 31 December 2023 includes loans to key management amounting to KShs 66 million (2022: KShs 70 million).

There were no loans issued to directors as at 31 December 2023 (2022: Nil).

	2023 KShs'000	2022 KShs'000
Interest income earned on loans to key management	3,327	3,545

(f) Key management compensation

	2023 KShs'000	2022 KShs'000
Salaries and other short-term employment benefits	89,263	131,201

16. Related party transactions (Continued)

(g) Directors' remuneration

	2023 KShs'000	2022 KShs'000
Salaries to executive directors (included in key management compensation above)	46,204	39,069
Compensation to non-executive directors	10,953	14,971
	57,157	**54,040**

(h) Subordinated debt

The disclosures on the subordinated debt from BoA Group S.A. is disclosed in Note 26.

17. Loans and advances to customers

	2023 KShs'000 Amortised cost	2022 KShs'000 Amortised cost
Overdrafts	3,499,807	2,508,259
Personal loans	1,920,871	2,917,470
Mortgages	2,245,695	2,308,649
Commercial loans	8,488,868	10,337,803
Discounted bills	2,839,949	3,313,533
Gross loans and advances	**18,995,190**	**21,385,714**
Less: Impairment loss allowance		
Stage 1 ECL allowance	(20,440)	(16,067)
Stage 2 ECL allowance	(75,669)	(103,671)
Stage 3 ECL allowance	(2,066,508)	(2,432,664)
Total impairment	(2,162,617)	(2,552,402)
Net loans and advances	**16,832,573**	**18,833,312**
Weighted average effective interest rate	11.6%	10.0%

31 December 2023

Gross Loans- On Balance Sheet	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Gross Carrying amount as at 31 December 2022	14,766,719	1,298,226	5,320,769	**21,385,714**
Changes in the loss allowance				
– Transfer to stage 1	(102,248)	102,204	44	-
– Transfer to stage 2	484,017	(499,393)	15,376	-
– Transfer to stage 3	43,332	151,722	(195,054)	-
New financial assets originated or purchased	6,829,378	246	-	**6,829,624**
Financial assets that have been derecognised	(9,259,271)	523,202	1,083,167	**(7,652,902)**
Writeoffs	(5,268)	(1,436)	(1,560,542)	**(1,567,246)**
Gross carrying amount as at 31 December 2023	**12,756,659**	**1,574,771**	**4,663,760**	**18,995,190**

17. Loans and advances to customers (Continued)

31 December 2022

Gross Loans- On Balance Sheet	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Gross Carrying amount as at 31 December 2021	10,963,905	1,547,644	8,671,054	21,182,603
Changes in the loss allowance				
– Transfer to stage 1	42,637	(41,969)	(668)	-
– Transfer to stage 2	146,211	(51,631)	(94,580)	-
– Transfer to stage 3	(96,045)	146,866	(50,821)	-
New financial assets originated or purchased	6,936,659	412,467	360,694	7,709,820
Financial assets that have been derecognised	(3,226,588)	(589,940)	(18,228)	(3,834,756)
Writeoffs	(60)	(125,211)	(3,546,682)	(3,671,953)
Gross carrying amount as at 31 December 2022	**14,766,719**	**1,298,226**	**5,320,769**	**21,385,714**

Movements in provisions for impairment of loans and advances are as follows:

Charge to profit or loss:

	2023 KShs'000	2022 KShs'000
Net increase/(decrease) in impairment loss allowance:		
Net remeasurement of loss allowance	(5,943)	(15,240)
New financial assets originated or purchased	(773,083)	(608,156)
Recoveries of loans and advances previously written off	29,694	25,660
Net impairment charged to profit or loss	**(749,332)**	**(597,736)**

All impaired loans have been written down to their estimated recoverable amount. The aggregate gross carrying amount of impaired loans at 31 December 2023 was KShs 4,664 million (2022: KShs 5,321 million).

18. Investment securities

(a) Unquoted equity securities

	2023 KShs'000 FVOCI	2022 KShs'000 FVOCI
1 January	9,674	9,674
Gain on fair value of investment securities	18,247	-
31 December	**27,921**	**9,674**

18. Investment securities (Continued)

(a) Unquoted equity securities (continued)

Name of entity	Place of business/ Country of incorporation	% of ownership	Nature of relationship
Bank of Africa-France	France	2023: 3.89% (2022: 3.89%)	Banking services
Swift	Switzerland	-	Swift services

2023: FVOCI:	BOA France KShs'000	Swift shares KShs'000	Total KShs'000
Balance at 1 January 2023	7,486	2,188	9,674
Fair value adjustments	18,247	-	18,247
Balance at 31 December 2023	**25,733**	**2,188**	**27,921**

2022: FVOCI:	BOA France KShs'000	Swift shares KShs'000	Total KShs'000
Balance at 1 January 2022	7,486	2,188	9,674
Changes in fair value	-	-	-
Balance at 31 December 2022	**7,486**	**2,188**	**9,674**

(b) Bills and bonds

	2023 KShs'000	2022 KShs'000
Treasury bills at amortised cost	1,479,637	2,954,627
Treasury bonds at amortised cost	11,053,065	11,124,599
Treasury bonds at FVOCI	426,802	483,738
	12,959,504	**14,562,964**
Maturing within 90 days of acquisition	954,308	796,046
Maturing after 90 days of acquisition	12,005,196	13,766,918
	12,959,504	**14,562,964**
Weighted average effective interest rate:		
Treasury bills	14.36%	8.99%
Treasury bonds at amortised costs	11.38%	11.38%
Treasury bonds at FVOCI	11.66%	11.66%

The unamortised premium on treasury bonds as at 31 December 2023 was KShs 54 million (2022: KShs 84 million).

19. Leases

19.1 Leases as lessee

The Bank leases a number of branch and office premises. The leases typically run for a period of 6 years, with some leases carrying an option to renew the lease after that date. For some leases, payments are renegotiated after expiry to reflect market rentals. Some leases provide for additional rent payments (rent escalation) that are based on changes in local price indices.

The Bank also leases IT equipment with contract terms of one year. These leases are short-term and/or leases of low-value items. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Bank is a lessee is presented below.

19. Leases

19.1.1 Right-of-Use Assets

Right-of-use assets relate to leased branch and office premises that are presented within property and equipment (see Note 20)

	Branch & Office premise 2023 KShs'000	Branch & Office premise 2022 KShs'000
Balance 1 January 2023	506,333	402,988
Depreciation charge for the year	(157,582)	(159,968)
Additions	72,619	296,520
Cancellations	-	(33,207)
Balance as at 31 December	**421,370**	**506,333**

At 31 December 2023, the future minimum lease payments under non-cancellable operating leases were payable as follows:

Maturity analysis – Contractual undiscounted cash flows

	2023 KShs'000	2022 KShs'000
Less than one year	20,797	1,648
Between one and five years	549,214	683,640
More than five years	213,906	216,107
Total undiscounted lease liabilities at 31 December	**783,917**	**901,395**

At 31 December, the discounted lease liabilities were as follows:

	Other Liabilities 2023 KShs'000	Other Liabilities 2022 KShs'000
Balance 1 January 2023	539,744	463,548
Cash Outflow	(205,962)	(192,537)
Additions	72,607	296,520
Cancellations	-	(62,702)
Interest Charged	32,101	34,915
Balance as at 31 December	**438,490**	**539,744**

19.1.2 Amounts recognised in profit or loss

2021-Leases under IFRS 16	2023 KShs'000	2022 KShs'000
Interest expense on lease liabilities (Note 6)	32,101	34,915
Expenses relating to leases of low value assets, excluding short term leases of low value assets	10,272	8,651
	42,373	**43,566**

19. Leases (Continued)

Amounts recognised in statement of cash flows

	2023 KShs'000	2022 KShs'000
Total cash outflows for leases	205,962	210,016

19.1.3 Extension Options

Some leases of branch premises contain extension options exercisable by the Bank before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Bank has estimated that the potential future lease payments, should it exercise the extension options, would result in an increase in lease liability of KShs 115 million.

19.2 Leases as lessor

19.2.1 Finance Lease

The Bank does not hold any finance leases in its capacity as a lessor.

19.2.2 Operating Lease

The Bank leases out its building property. The Bank has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

The table below shows the Bank's minimum lease payments in relation to rental income.

	2023 KShs'000	2022 KShs'000
Between one and five years	112,218	-
More than five years	8,054	-
Total Rent receivable	**120,272**	**-**

Rental income recognised by the Bank during the year ended 31 December 2023 was KShs 21 million (2022 KShs 19 million).

20. Property and equipment

2023:	ROU KShs'000	Land and Building KShs'000	Motor vehicles KShs'000	Fixtures, fittings and equipment KShs'000	Total KShs'000
Cost:					
Balance at 1 January 2023	1,193,205	993,974	52,586	1,699,258	3,939,023
Additions	74,410	-	-	55,684	130,094
Write Offs	-	-	-	(10,995)	(10,995)
Balance at 31 December 2023	**1,267,615**	**993,974**	**52,586**	**1,743,947**	**4,058,122**
Depreciation:					
Balance at 1 January 2023	688,659	69,658	52,586	1,444,675	2,255,578
Right-of-Use depreciation charge	157,585	-	-	-	157,585
Charge for the year		11,610	-	86,665	98,275
Write Offs	-	-	-	(7,018)	(7,018)
Balance at 31 December 2023	**846,244**	**81,268**	**52,586**	**1,524,322**	**2,504,420**
Net carrying amount at 31 December 2023	**421,371**	**912,706**	**-**	**219,625**	**1,553,702**

2022:	ROU	Land and Building KShs'000	Motor vehicles KShs'000	Fixtures, fittings and equipment KShs'000	Work in progress KShs'000	Total KShs'000
Cost:						
Balance at 1 January 2022	930,787	993,974	52,586	1,666,868	6,921	3,651,136
Additions	262,418	-	-	25,959	-	288,377
Transfer to fixtures,fittings and equipment	-	-	-	6,921	(6,921)	-
Write offs	-	-	-	(490)	-	(490)
Balance at 31 December 2022	**1,193,205**	**993,974**	**52,586**	**1,699,258**	**-**	**3,939,023**
Depreciation:						
Balance at 1 January 2022	527,799	58,048	49,350	1,355,851	-	1,991,048
Right-of-Use depreciation charge	160,860	-	-	-	-	160,860
Charge for the year	-	11,610	3,236	89,127	-	103,973
Write offs	-	-	-	(303)	-	(303)
Balance at 31 December 2022	**688,659**	**69,658**	**52,586**	**1,444,675**	**-**	**2,255,578**
Net carrying amount at 31 December 2022	**504,546**	**924,316**	**-**	**254,583**	**-**	**1,683,445**

During the financial year, the Bank closed 1 branch with KShs 10,995,000 worth of assets written off.

21. Intangible assets

Software

Cost:	2023 KShs'000	2022 KShs'000
Balance at 1 January	636,481	598,141
Additions	24,746	38,340
Reclassification		
Write offs	(19)	-
Balance at 31 December	**661,208**	**636,481**
Amortisation:		
Balance at 1 January	463,347	399,958
Charge for the year	70,074	63,389
Balance at 31 December	**533,421**	**463,347**
Net carrying amount		
Balance at 31 December	**127,787**	**173,134**

22. Other assets

	2023 KShs'000	2022 KShs'000
Financial assets		
Uncleared cheques	224,115	99,921
Mobile banking and money transfer receivables	240,997	260,162
Security deposit refundable	74,011	82,519
Guarantee fees receivable	3,729	1,467
*Other receivables	144,582	94,388
	687,434	**538,457**
Other assets		
Prepayments	180,101	197,998
	867,535	**736,455**

*Other receivables include KShs 70 million (2022 KShs 70 million) for amounts due from Group Banks for reimbursements for costs incurred by the Bank on behalf of the other bank.

23. Deferred tax asset

The deferred income tax assets, deferred income tax charge/(credit) in the statement of profit or loss and deferred income tax charge/(credit) in other comprehensive income are attributable to the following items:

Deferred income tax asset	31.12.2022 KShs'000	Prior year over provision KShs'000	Recognised in profit or loss KShs'000	Recognised in other comprehensive income KShs'000	31.12.2023 KShs'000
Impairment loss allowance	(1,054,390)	-	111,332	-	(943,058)
Provisions	(50,378)	(274)	(595)	-	(51,247)
Tax losses*	(1,578,532)	-	(25,556)	-	(1,604,088)
Property and equipment	12,345	-	3,087	-	15,432
Equity investments at FVOCI	(3,906)	-	-	5,474	1,568
Debt investments at FVOCI	(10,759)	-		(16,622)	(27,381)
IFRS 16	5,705	-	3,970	-	9,675
Net deferred income tax asset	**(2,679,915)**	**(274)**	**92,238**	**(11,148)**	**(2,599,099)**

Deferred income tax asset	31.12.2021 KShs'000	Prior year over provision KShs'000	Recognised in profit or loss KShs'000	Recognised in other comprehensive income KShs'000	31.12.2022 KShs'000
Impairment loss allowance	(875,620)	-	(178,770)	-	(1,054,390)
Provisions	(33,354)	-	(17,024)	-	(50,378)
Tax losses	(1,840,279)	-	261,747	-	(1,578,532)
Property and equipment	(151)	552	11,944	-	12,345
Equity investments at FVOCI	(3,906)	-	-	-	(3,906)
Debt investments at FVOCI	(3,494)	-	-	(7,265)	(10,759)
IFRS 16	(20)	-	5,725	-	5,705
Net deferred income tax asset	**(2,756,824)**	**552**	**83,622**	**(7,265)**	**(2,679,915)**

The Bank has cumulative tax losses amounting to KShs 5,347 million as at 31 December 2023: (2022 – KShs 5,262 million). Under the Kenyan Income Tax Act, the tax losses do not expire.

*The utilization of the deferred tax asset is dependant on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences.

The Bank expects to unwind the deferred tax asset with future profitable positions.

24. Due to other banking institutions

	2023 KShs'000	2022 KShs'000
Maturing within 90 days	2,599,767	1,003,863

Other banking institutions include both local and foreign non-Group banks.

25. Customer deposits

	2023 KShs'000	2022 KShs'000
Current and demand deposits	18,800,842	17,918,552
Savings accounts	1,989,945	2,093,491
Fixed deposit accounts	12,055,862	12,595,627
Margin deposits	282,390	125,710
	33,129,039	**32,733,380**
Weighted average interest rate	3.68%	3.67%

26. Borrowings

	2023 KShs'000	2022 KShs'000
Borrowings from:		
BOA Group S. A	1,576,421	-
Subordinated debt		
BOA Group S. A	1,337,523	1,001,911
	2,913,944	**1,001,911**
Balance at 1 January	1,001,911	970,873
Additions	1,567,500	-
Net accrued interest/(paid)	36,548	3,966
Exchange differences	307,985	27,072
Balance at 31 December	**2,913,944**	**1,001,911**

The fair values of borrowings are disclosed in Note 4. Fair values, are based on discounted cash flows using a discount rate based upon the borrowing rate that the Directors expect would be available to the Bank at the year-end date.

— An unsecured 3 year term loan of USD 10.0 million from BOA Group S.A for the development of the Bank's lending business in foreign currency. The loan was obtained in 2023 and is to mature in 2026. It bears an interest rate referenced to SOFR payable semi-annully in arrears. The effective interest rate on the loans at 31 December 2023 was 8.29%.

— The subordinated convertible loan is an unsecured 7-year loan of EUR 7.3 million issued by BOA Group S.A to enhance the Banks capital base. The loan was obtained on 1 July 2020 and has a maturity date of 1 July 2028. The debt has an initial five-year principal repayment moratorium. It bears an interest rate referenced to the Euro Short Term Rate (€STR) payable semi-annually in arrears. The effective interest rate on the subordinated debt as at 31 December 2023 was 8.73% (2022: 5.8%). The subordinated debt is treated as Tier 2 capital in line with Central Bank of Kenya Prudential Guidelines.

There were no breaches to the covenants of the borrowings during the year.

27. Other liabilities

	2023 KShs'000	2022 KShs'000
Financial liabilities		
Outstanding bankers' cheques	13,908	9,008
Accrued expenses*	119,467	275,002
Other payables	73,662	58,804
	207,037	**342,814**
Other liabilities		
Deferred income	34,848	79,056
Lease liability-IFRS 16	438,490	539,744
	473,338	**618,800**
	680,375	**961,614**

*Included in accrued expenses are amounts relating to different suppliers of goods and services.

28. Share capital and share premium

	2023 KShs'000	2022 KShs'000
Authorised and Issued and fully paid-up share capital:		
1 January		
7,927,449 (2022- 7,927,449) ordinary shares of KShs 1,000	7,927,449	7,927,449
There was nil movement in ordinary shares of Kshs 1,000 each during the year (2022 - 1,000)	-	-
Balance at 31 December 7,927,449 (2022 - 7,927,449)	**7,927,449**	**7,927,449**

The ordinary shares rank equally with regard to the Bank's residual assets, are entitled to receive dividends as declared from time to time and to one vote per share at general meetings of the Bank.

Share premium

Balance at 31 December 2023	**1,980,356**	**1,980,356**

Share premium arises from issue of shares at a price higher than the par value of the shares. These are being applied in business expansion of the Bank.

29. Statutory credit risk reserve

	2023 KShs'000	2022 KShs'000
Balance at 1 January	1,089,679	877,941
Transfer from retained earnings	35,361	211,738
Balance at 31 December	**1,125,040**	**1,089,679**

The statutory credit risk reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya Prudential Guidelines. The balance in the reserve represents the excess of impairment provisions determined in accordance with Central Bank Guidelines over the impairment provisions recognized in accordance with the International Financial Reporting Standards.

30. Other reserves-Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of debt investment at FVOCI financial assets until the investments are derecognized at which point the cumulative changes are transferred to profit and loss.

31. Off balance sheet financial instruments, contingencies and commitments

In common with other banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the statement of financial position.

31. Off balance sheet financial instruments, contingencies and commitments (Continued)

Contingent liabilities

	2023 KShs'000	2022 KShs'000
Letters of credit	334,263	239,377
Guarantees and performance bonds	7,045,380	7,252,665
Unutilized credit lines and other facilities	1,248,840	1,129,803
	8,628,483	**8,621,845**

Nature of contingencies

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

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

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

	2023 KShs'000	2022 KShs'000
Currency forwards	152,537	6,188
Foreign exchange spots	126,813	40,695
	279,350	**46,883**

Nature of commitments

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

Forward foreign exchange contracts are commitments to either purchase or sell a specified quantity of foreign currency at a specified future date at an agreed rate. The fair values of the respective currency forwards are carried under other assets or other liabilities as appropriate.

32. Analysis of cash and cash equivalents as shown in the cash flow statement

	2023 KShs'000	2022 KShs'000
Cash and balances with Central Bank (Note 13)	5,374,640	3,838,913
Less: cash reserve requirement (Note 13)	(1,358,871)	(1,369,032)
Investment and other securities (Note 18 (b))	954,308	796,046
Deposits due from other Banks (Note 15)	6,956,184	3,021,850
Amounts due from Group Banks (Note 16a)	3,709,927	1,762,901
At 31 December	**15,636,188**	**8,050,678**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with Central Bank, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya.

33. Dividends

At the next Annual General Meeting, no dividend in respect of the year ended 31 December 2023 is to be proposed (2022: Nil). Payment of dividends is subject to withholding tax at a rate of 5% for resident and 15% for non-resident shareholders or 0% for local Companies with 12.5% shareholding or above.

34. Fiduciary activities

The Bank holds asset security documents on behalf of customers with a value of KShs 7,969 million (2022: KShs 7,442 million). These securities are held by the Custody Services department of the Bank. The assets held comprise of deposits, government securities, debentures, title deeds, quoted and unquoted shares.

35. Contingent liabilities

The Bank has on-going tax matters with the Kenya Revenue Authority (KRA). These relates to VAT on interchange fees for the periods January 2013 to December 2017 amounting to KShs 15 million and from January 2018 to December 2018 amounting to KShs 2.2 million. The Tax Appeals Tribunal had ruled in favour of the Bank on the two matters but KRA appealed at the High Court. As at 31 December 2023, the directors have made provisions for these tax matters.

The Bank has a dispute with a regional Lender where the latter is accusing the Bank of not adhering to the terms of an escrow account operated by the Bank. The Bank is currently considering next course of action. The amounts subject to the dispute are KShs 37 million which the Bank is holding full provisions for (note 27).

36. Subsequent events

There were no events after 31 December 2023 that would have a material effect, adjusting or non-adjusting, on the financial statements.

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