KCB GROUP PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

Table of Contents

	Page No
Corporate Information	1
Report of the directors	3
Directors' remuneration report	5
Statement of directors' responsibilities	12
Report of the independent auditor	13
Financial statements:	
Consolidated statement of profit or loss	19
Consolidated statement of comprehensive income	20
Company statement of profit or loss and other comprehensive Income	21
Consolidated statement of financial position	22
Company statement of financial position	23
Consolidated statement of changes in equity	24
Company statement of changes in equity	26
Consolidated statement of cash flows	28
Company statement of cash flows	29
Notes	30

Directors

Dr. Joseph Kinyua	-	Chairman (Appointed 24 March 2023)
Mr. Andrew Kairu	-	Retired 26 May 2023
Mr. Paul Russo	-	Group Chief Executive Officer
C. S. National Treasury	-	Alternate Geoffrey Malombe
Ms. Alice M. Kirenge		
Mr. Ahmed Mohamed		
Mr. Lawrence Mark Njiru		
Mrs. Anne Eriksson	-	Resigned on 20 March 2023
Dr. Obuya Bagaka	-	Retired on 26 May 2023
Ms. Anuja Pandit		
Mr. Lawrence Kimathi	-	Group Director Finance

Company secretary

Bonnie Okumu
PO Box 48400 – 00100
Nairobi, Kenya

Auditor
PricewaterhouseCoopers LLP
PwC Tower
Waiyaki Way / Chiromo Road
PO Box 43963 – 00100
Nairobi, Kenya

Registered offices and principal places of business

KCB Group PLC
Kencom House
Moi Avenue
PO Box 48400 – 00100
Nairobi, Kenya

KCB Bank Tanzania Limited
Harambee Plaza
Ali Hassan Mwinyi Road/Kaunda Road Junction
PO Box 804
Dar es Salaam, Tanzania

KCB Bank South Sudan Limited
KCB Plaza
Ministry Road
PO Box 47
Juba, South Sudan

KCB Bank Uganda Limited
Commercial Plaza
7 Kampala Road
PO Box 7399
Kampala, Uganda

BPR Bank Rwanda PLC
KN 67 Street, 2
PO Box 1348
Kigali, Rwanda

KCB Bank Burundi Limited
Boulevard Patrice Lumumba
PO Box 6119
Bujumbura, Burundi

KCB Bank Kenya Limited
Kencom House
Moi Avenue
PO Box 48400 – 00100
Nairobi, Kenya

KCB Bank Kenya (Ethiopia Representative Office)
Morning Star Mall 4th floor
Bole Medhanialem
Addis Ababa, Ethiopia.

National Bank of Kenya Limited
National Bank Building
18 Harambee Avenue
PO Box 72866 – 00200
Nairobi, Kenya

Trust Merchant Bank SA
PO Box 72866 -0200
Lubumbashi, Democratic Republic of Congo

Principal lawyers

Iseme Kamau & Maema Advocates
P.O Box 11866-00400
Nairobi, Kenya

Oraro & Company Advocates
P.O Box 51236-00100
Nairobi, Kenya

MMC Asafo LLP
P.O Box 75362-00200
Nairobi, Kenya

TripleOKLaw Advocates
P.O Box 11866-00400
Nairobi, Kenya

The full list of the Group lawyers is available at Kencom House, the principal place of business of the Group.

Principal activities

The company is licensed as a non-operating holding company under the Banking Act (Cap 488). The principal activities of its main subsidiaries are provision of corporate, investment and retail banking services.

Results

The results of the Group and the Company are set out on pages 19 to 21.

Dividend

No interim dividend was paid during the year (2022: KShs 3,213 million). The Directors do not recommend the payment of a final dividend (2022: KShs 3,213 million), which together with the interim dividend brings the total dividends for the year to nil (2022: KShs 6,426 million).

Directors

The Directors who served during the year and up to the date of this report are set out in page 1. All the Directors are non-executive other than the Group Chief Executive Officer and the Group Finance Director.

Business review and financial performance

The Group consolidation includes the results of the entities owned by 'KCB Group Plc. The entities operate in Kenya, Tanzania, South Sudan, Rwanda, Uganda, Burundi, and the Democratic Republic of Congo mainly undertaking retail and corporate banking business in the domicile countries. The group also has a representative office in Ethiopia.

Interest income recorded a 37.5% increase from KShs 132 billion to KShs 181.6 billion. This is mainly due to the growth in interest income from government securities and interest income on loans and advances. This resulted from an increase in government securities from KShs 295 billion to KShs 397 billion and increase in loans and advances to customers from KShs 863 billion to KShs 1,096 billion, respectively.

The net fees and commission income increased by 117.6% from KShs 12.4 billion to KShs 27.1 billion due to increased customer transactions and impact of the extraction strategy.

The Group's credit impairment losses increased by 166.2% to KShs 27.4 billion (2022: KShs 10.3 billion) mainly impacted by increased exposure and downgraded loan facilities. The profit for the year recorded an 8.3% decrease from KShs 40.8 billion to KShs 37.5 billion mainly driven by increase in costs and additional impairment charge.

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Group's overall risk management framework focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group.

This is entrenched in the Group's governance structure. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Board of Directors of the Group has established various committees including Credit, Audit and Risk, Human Resources and Governance, Oversight and Strategy and Information Technology committees, which are tasked with developing and continuous monitoring of the Group risk management policies in their specified areas. The detailed description and analysis of the key risks is set out on note 4 of the financial statements.

Employees' Welfare

Our leadership believes in creating an environment where high performing individuals care about each other and work towards achieving the success of the organization. Our leaders passionately drive clarity and direction allowing our employees to connect to each other as they are bound by a common mission and vision.

The Group's management focuses on building the right culture as a strategic human resource priority by ensuring that the Group's culture is embedded across all levels and the same is driven across the entire workforce.

Having the right culture is an essential element for the Group's future development as we transform towards creating the digital era banking. Amongst the key components in this development is ensuring that our leaders are charged by the major roles of fostering strong leadership capabilities, talent management, enhancing employee relationship and development.

Environmental Footprint

At KCB Group, we believe that taking care of the ecological environment is a solemn responsibility for every human being. As a corporate citizen we have embraced a culture of responsible living, with the ultimate intention of building a sustainable work environment that has minimal or nil adverse effects on the environment.

Statement as to disclosure to the Group and Company's auditor

The directors confirm that with respect to each director at the time of approval of this report:

(a) there was, as far as each director is aware, no relevant audit information of which the company's auditor is unaware; and
(b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Terms of appointment of the auditor

PricewaterhouseCoopers LLP continues in office in accordance with the Company's Articles of Association and Section 719 of the Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

Events after the reporting period

There has been no event after the reporting date that requires adjustment or disclosure to these financial statements.

By Order of the Board

Bonnie Okumu
Company Secretary
Nairobi

20 March 2024

Information not subject to audit

The KCB Group Plc. approach towards reward and recognition is to ensure that individuals are adequately compensated and recognized for their role towards the overall success of the Group's business.

KCB Group Plc. presents the Directors' Remuneration report for the year ended 31 December 2023 in line with The Capital Markets Authority *Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015* which provides guidelines on Director's remuneration and in line with the provisions of The Companies Act, 2015.

During the year ended 31 December 2023, the Board of Directors consisted of:

(a) Two Executive Directors:

(i) Paul Russo – Group Chief Executive Officer
(ii) Lawrence Kimathi – Group Chief Finance Director

(b) Maximum of nine independent Non-Executive Directors:

(i) Joseph Kinyua (Chairman) (Appointed 24 March 2023)
(ii) Cabinet Secretary - National Treasury (Alternate: Geoffrey Malombe)
(iii) Andrew Kairu (Retired 26 May 2023)
(iv) Anne Eriksson (Resigned 20 March 2023)
(v) Lawrence Mark Njiru
(vi) Ahmed Mohamed
(vii) Dr. Obuya Bagaka (Retired 26 May 2023)
(viii)Alice Kirenge
(ix) Anuja Pandit

1. Directors Emoluments

For the financial year ended 31 December, 2023, the total Non-executive Directors remuneration was KShs. 103 million (2022: KShs. 126 million).

The total amount of emoluments paid to Directors for services rendered during the Year 2023 is disclosed on page 9.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which Directors acquired benefits by means of acquisition of the Company's shares.

2. Non-Executive Directors Remuneration and privileges policy

The Group has put in place a policy that adequately defines the remuneration and related privileges received by the Non-Executive Directors of the Company.

All the remuneration and privileges accorded to the Non-executive Directors and enumerated under the policy are competitive and reviewed according to the prevailing market trends for companies of a similar size and complexity of the Company.

The Board has in place a formal process of reviewing its performance and that of its committees and individual directors. Evaluation of the board is externally facilitated after every two years. Each director completes a detailed questionnaire designed to obtain feedback on the board's performance on the following areas:

- Strategic objectives.
- Risk governance.
- Board composition and skills.
- Board meetings and preparation.

2. Non-Executive Directors Remuneration and privileges policy (Continued)

- Board interaction and support.
- Performance of governance functions.
- Performance of Chairman, respective committees, and individual directors.

Each Non-Executive Director serves for a total non-renewable period of 8 years from the date of appointment. However, in accordance with the Articles of Association of the Company, one-third of the Non-executive Directors are required to resign and may offer themselves for reappointment to continue serving on the Board. No Director is entitled to any compensation upon the termination or end of their tenure as a member of the board.

The details of the tenure of the current Non-executive Directors is as follows:

Name	Appointment Date	Retirement Date
Dr. Joseph Kinyua (Chairman)	24 March 2023	24 March 2028
C. S. National Treasury (Alternate: Geoffrey Malombe)	27 September 2022*	-
Mr. Lawrence Njiru	7 August 2018	6 August 2026
Mr. Ahmed Mohamed	16 July 2020	15 July 2028
Alice Kirenge	10 November 2021	31 August 2025
Anuja Pandit	16 August 2022	15 August 2030

*Appointment date of alternate. The C. S National Treasury is an institutional director.

The Human Resources & Governance Committee of the Board is responsible for setting and administering the Non-executive Directors remuneration policy. The Human Resources & Governance Committee continuously reviews the entitlements under the policy to ensure these are aligned to the market.

The following components are provided to the Non-executive Directors:

Monthly fees

These are paid to the Non-Executive Directors taking into account their responsibility as a Director of the Company. These are paid monthly.

Sitting allowance

A sitting allowance is paid to each Non-Executive Directors for attending a duly convened and constituted meeting of the Board or of any of the Committees.

Duty day allowance

An allowance paid to a Non-Executive Director for any day away his regular station in order to attend to duties of the Company.

Telephone allowance

Non-Executive Directors are entitled to a telephone allowance paid monthly.

Club membership

Non-Executive Directors are entitled to paid membership to a social or fitness club.

Medical insurance cover

Provided to all Non-Executive Directors for their individual medical requirements covering both outpatient and in-patient requirements.

2. Non-Executive Directors Remuneration and privileges policy (Continued)

Professional Indemnity Cover

This is provided in line with best market practice to protect the Non-Executive Directors in undertaking their duties in such capacity.

3. Executive Directors Remuneration

The remuneration for Executive Directors is as per the negotiated employment contracts. Each Executive Director is employed on a fixed term basis. The fixed term contracts run for a period not exceeding 5 years. The contracts are renewable.

The details of the contracts for the Executive Directors are as follows:

Name	Commencement Date	Duration	Unexpired term*	Termination Notice
Paul Russo	25 May 2022	5 years	3 years 5 months	3 months
Lawrence Kimathi	21 December 2022	5 years	4 years	3 months

* As at 31 December 2023

Executive Directors performance is measured based on a Balanced Score Card. Annual business performance targets are derived from the KCB Group '*Beyond Banking*' (2020 - 2023) strategic plan. The key initiatives under the strategic plan include:

- Building a customer centric organization.
- Exponential growth in digital financial services.
- Excellence in operational efficiency.
- Business growth.
- Effective talent management.
- Driving shareholder value.

Key performance measures under the Balances Score Card cover areas around:

- Financial performance.
- Customer and stakeholder satisfaction.
- Human capital, culture, learning and growth.
- Efficiency in internal business processes.

Executive Directors are entitled to the following remuneration:

Consolidated Basic Pay
This is the consolidated base salary paid to the Executive Director that includes an element of housing.

Bonus
Executive Directors are entitled to a performance-based bonus pay. Part of the bonus is deferred for payment in the future.

Allowances
Allowances paid include a house allowance, a car allowance, a telephone allowance, and an allowance related to loan benefit adjustment.

Gratuity
This is paid to Executive Directors at the rate of 30% of the annual consolidated basic salary.

Club Membership
Executive Directors are entitled to paid membership to a social or fitness club.

3. Executive Directors Remuneration (continued)

Medical Insurance Cover
As provided to all employees, Executive Directors are entitled to medical insurance cover for their individual and family medical requirements covering both outpatient and in-patient requirements.

Professional Indemnity Cover
This is provided in line with best market practice to provide protection for the Executive Directors in undertaking their duties in such capacity.

AUDITABLE PORTION

i. NON-EXECUTIVE DIRECTORS' FEES, ALLOWANCES AND OTHER BENEFITS FOR THE YEAR ENDED 31 DECEMBER 2023

Director's Name	Directors' fees	Sitting allowance	Other allowances [1]	Non-cash benefit [2]	Total
	KShs. '000'	KShs. '000'	KShs. '000'	KShs. '000'	KShs. '000'
Dr. Joseph Kinyua [3]	5,632	3,769	847	208	**10,456**
Mr. Andrew Kairu [4]	3,598	2,400	2,890	208	**9,096**
CS National Treasury	3,200	-	-	-	**3,200**
Mr. Geoffrey Malombe	480	9,624	537	208	**10,849**
Eng. Stanley Kamau [5]	126	223	16	208	**573**
Mr. Lawrence Njiru	7,914	8,808	444	208	**17,374**
Mrs. Anne Eriksson [6]	731	2,540	86	208	**3,565**
Mr. Ahmed Mahmoud	5,225	7,209	651	208	**13,293**
Mr. Obuya Bagaka [7]	3,729	7,625	740	242	**12,336**
Mrs. Alice Kirenge	5,465	6,959	264	307	**12,995**
Ms. Anuja Pandit	3,065	5,355	360	731	**9,511**
GRAND TOTAL [8]					**103,248**

Notes:

(1) Other allowances include the telephone allowance, a meal allowance, and the duty day allowance.
(2) Non-cash benefits include medical insurance cover cost and entitlement, club membership and professional indemnity cover cost.
(3) Appointed 24 March 2023.
(4) Retired 26 May 2023.
(5) Retired 16 January 2023.
(6) Resigned 20 March 2023.
(7) Retired 26 May 2023.
(8) The amount includes fees, allowances, and other benefits in respect of KCB Bank Kenya Limited, National Bank of Kenya Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Uganda Limited, BPR Bank Rwanda PLC, KCB Bank Burundi Limited, KCB Investment Bank Limited, KCB Bancassurance Intermediary Limited and KCB Foundation. The Group Board nominates at least one member to sit on each subsidiary board.

ii. NON-EXECUTIVE DIRECTORS FEES, ALLOWANCES AND OTHER BENEFITS FOR THE YEAR ENDED 31 DECEMBER 2022

Director's Name	Directors' fees	Sitting allowance	Other allowances (1)	Non-cash benefit (2)	Total
	KShs. '000'	KShs. '000'	KShs. '000'	KShs. '000'	KShs. '000'
Mr. Andrew Wambari Kairu	8,923	4,800	6,857	307	**20,887**
C. S. National Treasury	2,880	-	-	-	**2,880**
Eng. Stanley Kamau	-	11,550	386	208	**12,144**
Ms. Georgina Malombe (3)	3,317	2,279	963	208	**6,767**
Mr. John Nyerere (4)	2,484	1,940	288	208	**4,920**
Mr. Lawrence Njiru	7,914	5,938	1,097	208	**15,157**
Mrs. Anne Eriksson	4,640	10,793	1,806	208	**17,447**
Mr. Ahmed Mahmoud	3,781	5,794	1,367	208	**11,150**
Dr. Obuya Bagaka	6,110	7,990	1,859	242	**16,201**
Mrs. Alice Kirenge	5,210	6,487	2,986	268	**14,951**
Ms. Anuja Pandit (5)	852	2,039	496	208	**3,595**
GRAND TOTAL (6)					**126,099**

Notes:

(1) Other allowances include the telephone allowance, a meal allowance, and the duty day allowance.
(2) Non-cash benefits include medical insurance cover cost and entitlement, club membership and professional indemnity cover cost.
(3) Retired 16 June 2022.
(4) Retired 13 June 2022.
(5) Appointed 16 August 2022.
(6) The amount includes fees, allowances, and other benefits in respect of KCB Bank Kenya Limited, National Bank of Kenya Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Uganda Limited, BPR Bank Rwanda, KCB Bank Burundi Limited, KCB Capital Limited, KCB Insurance Agency Limited and KCB Foundation. The Group Board nominates at least 2 of its members to sit on each subsidiary board.

iii. EXECUTIVE DIRECTORS' REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2023

Director's Name	Salary KShs'000	Bonus		Allowances KShs'000	Gratuity KShs'000	Noncash benefit [1] KShs'000	Total KShs'000
		Cash KShs'000	Deferred KShs'000				
Mr. Paul Russo	75,048	51,783	17,261	9,600	22,514	1,445	177,651
Mr. Lawrence Kimathi	48,593	25,147	8,382	-	14,578	1,439	98,139

Note:

(1) Non-cash benefits include medical insurance cover, club membership and professional indemnity cover.

iv. EXECUTIVE DIRECTORS' REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2022

Director's Name	Salary KShs'000	Bonus		Allowances KShs'000	Gratuity KShs'000	Noncash benefit [1] KShs'000	Total KShs'000
		Cash KShs'000	Deferred KShs'000				
Mr. Paul Russo	72,700	99,357	24,839	5,800	12,800	2,000	217,496
Mr. Lawrence Kimathi	50,800	42,084	12,378	-	13,800	1,500	120,562
Mr. Joshua Oigara	80,000	-	-	6,600	15,600	1,600	103,800

Note:

(1) Non-cash benefits include medical insurance cover, club membership and professional indemnity cover.

BY ORDER OF THE BOARD

Alice Kirenge
Chairman, Human Resources & Governance Committee

Date: 20 March 2024

The Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and Company as at the end of the financial year and of their profit or loss for that year. The directors are responsible for ensuring that the Group and Company keep proper accounting records that are sufficient to show and explain the transactions of the Group and Company; disclose with reasonable accuracy at any time the financial position of the Group and Company; and that enables them to prepare financial statements of the Group and Company that comply with prescribed financial reporting standards and the requirements of the Companies Act, 2015. They are also responsible for safeguarding the assets of the Group and Company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

i. designing, implementing, and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.
ii. selecting suitable accounting policies and then apply them consistently; and
iii. making judgements and accounting estimates that are reasonable in the circumstances.

Having assessed the Group's and Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group's and Company's ability to continue as a going concern.

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

Approved by the board of directors on 20 March 2024 and signed on its behalf by:

Dr Joseph Kinyua
Chairman

Paul Russo
Chief Executive Officer

Lawrence Njiru
Director

Bonnie Okumu
Secretary

Report of the independent auditor to the shareholders of KCB Group Plc

Report on the financial statements

Opinion

We have audited the accompanying financial statements of KCB Group Plc (the Company) and its subsidiaries (together, the Group) set out on pages 19 to 160, which comprise the consolidated statement of financial position at 31 December 2023 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2023, and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, comprising material accounting policies and other explanatory information.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the Group and the Company at 31 December 2023 and of their financial performance and cash flows for the year then ended in accordance with IFRS Accounting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements, as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers LLP. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P O Box 43963 – 00100 Nairobi, Kenya
T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke

Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu B Ngunjiri R Njoroge S O Nobert's B Okundi K Saiti

Report of the independent auditor to the shareholders of KCB Group Plc (continued)

Report on the financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Credit risk assessment and determination of expected credit losses on loans and advances at amortised cost As explained in Note 2 (j) and 4 (a) of the financial statements, determining expected credit losses on loans and advances is complex, judgmental and involves significant estimation uncertainty. IFRS 9, Financial Instruments, requires the directors to measure expected credit losses on a forward-looking basis reflecting a range of future economic conditions. The standard adopts a 3-stage model approach where the loans and advances are categorised in stage 1, 2 and 3 depending on whether the facilities are performing, have experienced significant increase in credit risk or are in default. Changes to the assumptions and estimates used by management could generate significant fluctuations in the Group's financial results and materially impact the valuation of the portfolio of loans and advances. The calculation of the expected credit losses involves complex mathematical models that are prone to data integrity or configuration errors, or mathematical formulaic errors. This is an area of focus because of significant impact on the calculation of the expected credit losses: • the judgments made to determine the categorisation (staging) of individual loans and advances accounts in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used; • the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments of loans and advances, including any adjustments in relation to COVID-19 overlays; and • the appropriateness of forward-looking information used in the models; and • the mathematical logic, appropriateness and accuracy of the expected credit losses models used by the entities in the Group.	We evaluated the Group's methodology for determining expected credit losses, including enhancements in the year, against the requirements of IFRS 9. Tested how the individual entities applied the system extracts of 'days past due (DPD)' report in categorising the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model and agreed these to the DPD reports from the IT systems and the respective customer files. Reviewed judgments applied in the staging of loans and advances. Tested the completeness of restructured loans listing and, on a sample basis, assessed the rationale for the restructures and the appropriateness of their subsequent measurement in accordance with IFRS 9 requirements. Obtained an understanding of the basis used to determine the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD), including the cure rates and post write-off recovery rates for unsecured facilities. Tested the completeness and accuracy of the historical data used in derivation of PDs, LGDs and EADs, and re-calculated the outcomes on a sample basis. For LGD, we tested the assumptions on the timing of the cash flows based on historical empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuers' reports. On a sample basis, we recomputed the EADs for both on and off-balance sheet exposures to check their reasonableness, including applying cash conversion factors. We also reviewed judgments applied in the staging of loans and advances. Corroborated the assumptions used for determination of forward-looking information (FLI) in the models using publicly available information. Assessed the adequacy of the disclosures in the financial statements on the key judgements and assumptions in accordance with the requirement of IFRS 9.

Report of the independent auditor to the shareholders of KCB Group Plc (continued)

Report on the financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Reliance on Information & Communications Technology (ICT) systems and applications for financial control and reporting The Group's financial control, accounting and reporting processes are heavily dependent on complex information & communications technology systems and applications. Specifically, the calculation, recording and financial reporting of financial transactions and balances are significantly dependent on automated processes. Weaknesses in the design and operating effectiveness of the automated accounting procedures and related IT dependent manual controls could result in material errors in the financial information, which makes this an area of focus. Our audit focus on information & communications technology systems and applications and controls over financial reporting included the following areas: • management of logical access to critical systems including privileged access and developer access to production environment. • controls over changes of programs and systems developments. • automated application controls relating to processing of transactions, accounting and financial reporting; and • interfaces between the core financial reporting systems to banking systems and applications, including any manual adjustments to the financial information.	Assessed and tested the design and operating effectiveness of the controls over the integrity of information technology (IT) systems and applications that are relevant for financial accounting and reporting. Tested controls over programs development and changes, access to programs and data and IT operations including compensating controls where necessary. We also tested certain aspects of the security of the IT systems including logical access management and segregation of duties. Where, either design or operating effectiveness control deficiencies were identified, we altered our audit approach to test the compensating controls or increased the level of our tests of detail. These additional procedures mitigated the deficiencies or provided the additional audit comfort. Validated any manual adjustments to information generated by the IT systems and applications and assessed the appropriateness of the adjustments. Reperformed automated controls and calculations by the core banking systems and other significant applications to ensure that the applications are working accurately and as designed. This included recomputation of interest income, interest expense, fees and commission income and trading income. Reperformed automated controls and calculations by the core banking systems and other significant applications to ensure that the applications are working accurately and as designed. This included recomputation of interest income, interest expense, fees and commission income and trading income.

Report of the independent auditor to the shareholders of KCB Group Plc (continued)

Report on the financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for contingent liabilities As disclosed in note 47 of the financial statements, the group entities had several unresolved tax claims and legal matters arising in the ordinary course of business. The directors use the best available information to assess the likely outcome of the unresolved matters for purposes of estimating any potential liabilities to be recorded or determining the level of disclosures in the financial statements. The future outcome of these claims and legal proceedings could be materially different for the directors' judgements at the year end.	Our audit focused on assessing the reasonableness of the directors' judgements in relation to the unresolved tax claims and legal proceedings. Our procedures included: - obtaining legal confirmations from the individual entities' lawyers to assess the completeness and accuracy of management's register of unresolved tax claims and legal proceedings - detailed understanding of the significant unresolved tax claims and legal matters through discussions with the internal legal counsel and other senior management. - challenging management analysis of the matters and the potential financial exposures; and - where applicable, review of the independent external legal opinions obtained by the directors. We assessed the reasonableness of the estimates and judgements by the directors for financial reporting at the year end based on the best information available to them. We evaluated whether the disclosures in the financial statements appropriately reflect the significant uncertainties involved in the unresolved matters.

Other information

The other information comprises Corporate Information, Report of the directors, Directors' remuneration report, Statement of directors' responsibilities which we obtained prior to the date of this auditor's report, and the rest of the other information in the 2023 Integrated Report and Financial Statements which are expected to be made available to us after that date but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not and will not express any form of assurance conclusion thereon.

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

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

When we read the rest of the other information in the 2023 Integrated Report and Financial Statements and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Report of the independent auditor to the shareholders of KCB Group Plc (continued)

Report on the financial statements (continued)

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

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

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

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

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

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

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

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

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

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

Report of the independent auditor to the shareholders of KCB Group Plc (continued)

Report on the financial statements (continued)

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence applicable and where applicable actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Group's financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other matters prescribed by the Companies Act, 2015

Report of the directors

In our opinion the information given in the report of the directors on pages 3 and 4 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 9 to 11 has been properly prepared in accordance with the Companies Act, 2015

FCPA Michael Mugasa, Practicing Certificate Number 1478
Engagement partner responsible for the audit
For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi
20 March 2024

Consolidated statement of profit or loss

	Note	2023 Kshs million	2022 Kshs million
Interest income	8	181,553	132,003
Interest expense	8	(60,841)	(31,098)
Net interest income		**120,712**	**100,905**
Fees and commission income	9	31,928	15,258
Fees and commission expense	9	(4,862)	(2,819)
Net fees and commission income		**27,066**	**12,439**
Net foreign exchange gain	10	6,969	11,079
Other operating income	11	4,598	3,789
Total income		**159,345**	**128,212**
Impairment losses on financial assets	12	(27,415)	(10,300)
Net loss from financial assets at fair value through profit or loss	13	(472)	(1,531)
		(27,887)	**(11,831)**
Net operating income		**131,458**	**116,381**
Employee benefits	14	(38,469)	(30,422)
Depreciation and amortisation	15	(9,329)	(6,615)
Other operating expenses	16	(35,351)	(22,329)
Gain on monetary position	18	-	271
		48,309	**57,286**
Share of net profit from associates accounted for using equity method	24	**144**	**45**
Profit before income tax		**48,453**	**57,331**
Income tax expense	19	(10,991)	(16,494)
Profit for the year		**37,462**	**40,837**
Profit is attributable to :			
Equity holders of KCB Group PLC		36,176	40,613
Non-controlling interest		1,286	224
		37,462	**40,837**
Earnings per share (KShs)			
Basic earnings per share	20	11.66	12.71
Diluted earnings per share	20	11.66	12.71

Consolidated statement of comprehensive income

	Note	2023 Kshs million	2022 Kshs million
Profit for the year		**37,462**	**40,837**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of post employment obligation	48	84	(218)
Income tax expense thereon	34	(25)	65
		59	(153)
Items that may be reclassified subsequently to profit or loss			
Hyperinflation translation		-	171
Currency translation differences on foreign operations		1,957	616
Financial assets at fair value through other comprehensive income			
Loss from fair value re-measurement		(9,974)	(4,218)
Income tax expense thereon	34	2,992	1,266
		(5,025)	(2,165)
Other comprehensive income for the year net of income tax		**(4,966)**	**(2,318)**
Total comprehensive income for the year		**32,496**	**38,519**
Total comprehensive income for the year is attributable to			
Owners of KCB Group PLC		**30,534**	**38,295**
Non-controlling interest		**1,962**	**224**
Total comprehensive income for the year		**32,496**	**38,519**

Company statement of profit or loss and other comprehensive income

	Note	2023 Kshs million	2022 Kshs million
Dividend income	11	1,091	32,824
Interest income	8	252	19
Net foreign exchange gain	10	31	14
Other operating income	11	1,329	1,412
Total income		**2,703**	**34,269**
Interest expense	8	(218)	-
Employee benefits	14	(907)	(1,210)
Depreciation and amortisation	15	(20)	(18)
Other operating expenses	16	(756)	(919)
Profit before income tax	17	**802**	**32,122**
Income tax expense	19	(34)	82
Profit for the year		**768**	**32,204**
Total comprehensive income for the year		**768**	**32,204**
Earnings per share (KShs)			
Basic		**0.24**	**10.02**
Diluted		**0.24**	**10.02**

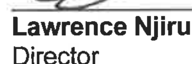
Consolidated statement of financial position

	Note	2023 Kshs million	2022 Kshs million
ASSETS			
Cash and balances with Central Bank	21	136,111	91,131
Loans and advances to banks	22	370,399	163,632
Financial assets at fair value through other comprehensive income	23	200,275	113,498
Financial assets at fair value through profit or loss	28	69	17,403
Investment accounted for using equity method	24	1,580	1,077
Loans and advances to customers at amortised cost	26	1,094,289	860,680
Loans and advances at fair value through profit and loss	26	1,655	2,588
Other assets and prepayments	25	65,653	49,738
Current income tax	19	-	336
Financial assets at amortized cost	27	196,859	164,522
Property and equipment	29	23,910	26,618
Investment property	30	19,191	12,601
Right-of-use assets	31	3,095	3,233
Intangible assets	32	19,324	21,215
Deferred income tax	34	38,464	25,758
TOTAL ASSETS		**2,170,874**	**1,554,030**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks	35	87,809	92,787
Deposits from customers	36	1,690,908	1,135,417
Payables and accrued expenses	37	54,414	44,989
Lease liabilities	38	5,797	5,873
Deferred income tax	34	3,459	4,492
Current income tax	19	3,668	-
Retirement benefit obligation	48	601	585
Borrowings	40	88,658	63,610
Total liabilities		**1,935,314**	**1,347,753**
Equity			
Share capital	41	3,213	3,213
Share premium		27,690	27,690
Statutory credit risk reserve	42	17,152	26,707
Other reserves	42	(16,684)	(11,042)
Retained earnings		196,151	153,633
Total equity attributable to equity holders of KCB Group PLC		**227,522**	**200,201**
Non-controlling interest		8,038	6,076
Total equity		**235,560**	**206,277**
TOTAL LIABILITIES AND EQUITY		**2,170,874**	**1,554,030**

The financial statements set out on pages 19 to 160 were approved and authorised for issue by the Board of Directors on 20 March 2024 and were signed on its behalf by:

Dr. Joseph Kinyua
Chairman

Paul Russo
Chief Executive Officer



Lawrence Njiru
Director

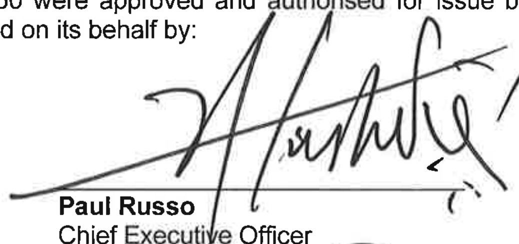
Bonnie Okumu
Secretary

Company statement of financial position

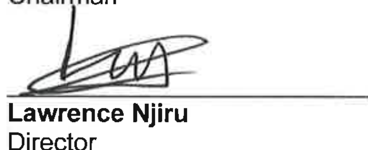
	Note	2023 Kshs million	2022 Kshs million
ASSETS			
Cash and bank balances	21	927	712
Other assets and prepayments	25	89	62
Investment in subsidiary undertakings	33	114,280	114,270
Due from related parties	39	5,969	-
Current income tax	19	114	90
Property and equipment	29	841	828
Intangible assets	32	1	3
Deferred income tax	34	78	110
TOTAL ASSETS		**122,299**	**116,075**
LIABILITIES AND EQUITY			
Liabilities			
Payables and accrued expenses	37	625	766
Due to related parties	39	11,170	2,360
Total liabilities		**11,795**	**3,126**
Equity			
Share capital	41	3,213	3,213
Share premium		27,690	27,690
Retained earnings		79,601	82,046
Total equity		**110,504**	**112,949**
TOTAL LIABILITIES AND EQUITY		**122,299**	**116,075**

The financial statements set out on pages 19 to 160 were approved and authorised for issue by the Board of Directors on 20 March 2024 and were signed on its behalf by:

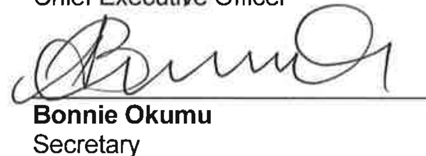
Dr. Joseph Kinyua
Chairman



Paul Russo
Chief Executive Officer



Lawrence Njiru
Director



Bonnie Okumu
Secretary

Consolidated statement of changes in equity

	Share capital	Share premium	Statutory credit risk reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
	KShs Millions	KShs Millions	KShs Millions	KShs Millions	KShs Millions	KShs Millions	KShs Millions	KShs Millions
At 1 January 2023	3,213	27,690	26,707	(11,042)	153,633	200,201	6,076	206,277
Profit for the year	-	-	-	-	36,176	36,176	1,286	37,462
Other comprehensive income (net of taxes)								
Foreign currency translation differences for foreign operations	-	-	-	1,281	-	1,281	676	1,957
Net gain on fair value of financial assets at fair value through other comprehensive income (net of tax)	-	-	-	(6,982)	-	(6,982)	-	(6,982)
Transfer from statutory credit risk reserve	-	-	(9,555)	-	9,555	-	-	-
Re-measurement of post-employment benefit obligation (net of taxes)	-	-	-	59	-	59	-	59
Total comprehensive income	**-**	**-**	**(9,555)**	**(5,642)**	**9,555**	**(5,642)**	**676**	**(4,966)**
Transactions with owners recorded directly in equity								
Final dividend – 2022 paid	-	-	-	-	(3,213)	(3,213)	-	(3,213)
Total contributions and distributions	**-**	**-**	**-**	**-**	**(3,213)**	**(3,213)**	**-**	**(3,213)**
At 31 December 2023	**3,213**	**27,690**	**17,152**	**(16,684)**	**196,151**	**227,522**	**8,038**	**235,560**

Consolidated statement of changes in equity

	Share capital	Share premium	Statutory credit risk reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
	KShs Millions	KShs Millions	KShs Millions	KShs Millions	KShs Millions	KShs Millions	KShs Millions	KShs Millions
At 1 January 2022	3,213	27,690	7,959	(8,385)	141,236	171,713	1,794	173,507
Profit for the year	-	-	-	-	40,613	40,613	224	40,837
Other comprehensive income (net of taxes)								
Foreign currency translation differences for foreign operations	-	-	-	448	-	448	168	616
Net gain on fair value of financial assets at fair value through other comprehensive income (net of tax)	-	-	-	(2,952)	-	(2,952)	-	(2,952)
Transfer from statutory credit risk reserve	-	-	18,748	-	(18,748)	-	-	-
Hyperinflationary impact	-	-	-	-	171	171	-	171
Re-measurement of post-employment benefit obligation (net of taxes)	-	-	-	(153)	-	(153)	-	(153)
Total comprehensive income	**-**	**-**	**18,748**	**(2,657)**	**(18,577)**	**(2,486)**	**168**	**(2,318)**
Transactions with owners recorded directly in equity								
Final dividend- 2021	-	-	-	-	(6,426)	(6,426)	-	(6,426)
Interim dividend- 2022	-	-	-	-	(3,213)	(3,213)	-	(3,213)
Non-controlling interest on acquisitions	-	-	-	-	-	-	3,890	3,890
Total contributions and distributions	**-**	**-**	**-**	**-**	**(9,639)**	**(9,639)**	**3,890**	**(5,749)**
At 31 December 2022	**3,213**	**27,690**	**26,707**	**(11,042)**	**153,633**	**200,201**	**6,076**	**206,277**

Company statement of changes in equity

	Share capital KShs Millions	Share premium KShs Millions	Retained earnings KShs Millions	Total KShs Millions
At 1 January 2023	3,213	27,690	82,046	112,949
Profit for the year	-	-	768	768
Other comprehensive income (net of taxes)				
Net gain on fair value of financial assets at fair value through other comprehensive income(net of tax)	-	-	-	-
Total comprehensive income	**3,213**	**27,690**	**82,814**	**113,717**
Transactions with owners recorded directly in equity				
Dividend paid in 2023	-	-	(3,213)	(3,213)
Total contributions and distributions	**-**	**-**	**(3,213)**	**(3,213)**
At 31 December 2023	**3,213**	**27,690**	**79,601**	**110,504**

Company statement of changes in equity

	Share capital KShs Millions	Share premium KShs Millions	Retained earnings KShs Millions	Total KShs Millions
At 1 January 2022	3,213	27,690	59,481	90,384
Profit for the year	-	-	32,204	32,204
Other comprehensive income (net of taxes)				
Net gain on fair value of financial assets at fair value through other comprehensive income(net of tax)	-	-	-	-
Total comprehensive income	**-**	**-**	**32,204**	**32,204**
Transactions with owners recorded directly in equity				
Dividend paid in 2022	-	-	(9,639)	(9,639)
Total contributions and distributions	**-**	**-**	**(9,639)**	**(9,639)**
At 31 December 2022	**3,213**	**27,690**	**82,046**	**112,949**

Consolidated statement of cashflows

	Note	2023 Kshs million	2022 Kshs million
Net cash flows from operating activities	44	**243,736**	**180,395**
Investing activities			
Proceeds from disposal of property and equipment		35	7
Purchase of intangible assets	32	(2,400)	(3,780)
Purchase of property and equipment	29	(1,726)	(4,013)
Acquisition of subsidiary	33	-	(25,111)
Net cash flows from investing activities		**(4,091)**	**(32,897)**
Financing activities			
Proceeds from borrowings	40	17,043	20,535
Payment of principal portion of borrowings	40	(6,629)	(2,638)
Payment of principal portion of lease liabilities		(497)	(497)
Dividends paid		(3,213)	(9,639)
Net cash flows from financing activities		**6,704**	**7,761**
Increase in cash and cash equivalents		246,349	155,259
Cash and cash equivalents at start year		213,288	58,029
Cash and cash equivalents at end of year	44	**459,637**	**213,288**

Company statement of cashflows

	Note	2023 Kshs million	2023 Kshs million
Net cash flows from operating activities	44	**3,428**	**36,368**
Investing activities			
Proceeds from disposal of property and equipment		-	(228)
Investment in subsidiaries		-	(25,111)
Payment for acquisition of subsidiary, net cash acquired	33	-	(1,195)
Net cash flows from investing activities		**-**	**(26,534)**
Financing activities			
Dividends paid		(3,213)	(9,639)
Net cash flows from financing activities		**(3,213)**	**(9,639)**
Increase in cash and cash equivalents		215	195
Cash and cash equivalents at start of year		712	517
Cash and cash equivalents at end of year	44	**927**	**712**

Notes

1. Reporting entity

KCB Group Plc is incorporated in Kenya under the Kenyan Companies Act, 2015 and has subsidiaries in Kenya, South Sudan, Tanzania, Uganda, Rwanda, Burundi and Democratic Republic of Congo. The consolidated financial statements of the Company as at and for the year ended 31 December 2023 comprise the Group and its subsidiaries (together referred to as the "Group" and individually referred to as the "Company") and the Group's interest in associates. The address of its registered office is as follows:

Kencom House
Moi Avenue
PO Box 48400 - 00100
Nairobi, Kenya

The Company has a 100% ownership in KCB Bank Kenya Limited, Kenya Commercial Finance Company Limited, Savings & Loan Kenya Limited, Kenya Commercial Bank Nominees Limited, Kencom House Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Uganda Limited, KCB Bank Burundi Limited, KCB Insurance Agency Limited, KCB Capital Limited, National Bank of Kenya,87.6% ownership in BPR Rwanda,85% ownership in Trust Merchant Bank SA (TMB), 20% ownership in Kenya Mortgage Refinance Company (KMRC) and a 45% ownership in United Finance Limited.

The shares of the Company are listed on the Nairobi Securities Exchange, Uganda Securities Exchange, Dar-es-Salaam Stock Exchange and Rwanda Stock Exchange.

2. Summary of material accounting policies

(a) Compliance with IFRS Accounting Standards

The financial statements of the Group have been prepared in accordance with IFRS Accounting Standards and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS Accounting Standards. The financial statements comply with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

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

(b) Basis of preparation

The financial statements have been prepared on the historical cost basis except for the following:

- Financial assets at fair value through profit or loss are measured at fair value.
- Financial assets at fair value through other comprehensive income are measured at fair value.
- Investment property is measured at fair value; and,
- The liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains less unrecognised past service cost and unrecognised actuarial losses.

(c) Changes in accounting policies and disclosures

The accounting policies set out below have been applied consistently to all years presented on these financial statements and have been applied consistently by the Group.

Notes (continued)

2. Summary of material accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

(i) New standards, amendments and interpretations effective and adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2023. These standards and amendments did not have a material impact on the financial statements.

Title	Effective date	Key requirements
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023 (Published May 2017)	The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

Notes (continued)

2. Summary of material accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

(i) New standards, amendments, and interpretations effective and adopted by the Group(continued)

Title	Effective date	Key requirements
Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'	Annual periods beginning on or after 1 January 2023. (Published February 2021)	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates.
Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	Annual periods beginning on or after 1 January 2023. (Published May 2021)	The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.
Amendments to IAS 12 International Tax Reform—Pillar Two Model Rules	The deferred tax exemption and disclosure of the fact that the exception has been applied, is effective immediately. The other disclosure requirements are effective annual periods beginning on or after 1 January 2023. (Published May 2023)	These amendments give companies temporary relief from accounting for deferred taxes arising from the organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.

(ii) New standards, amendments and interpretations issued not yet effective

The below new accounting standards and interpretations have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted by the Group.

Title	Effective date	Key requirements
Amendments to IAS 1 - Non-current liabilities with covenants	Annual periods beginning on or after 1 January 2024 (Published January 2020 and November 2022)	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.

Notes (continued)

2. Summary of material accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

(ii) New standards, amendments and interpretations issued not yet effective (continued)

Title	Effective date	Key requirements
Amendment to IFRS 16 – Leases on sale and leaseback	Annual periods beginning on or after 1 January 2024 (Published September 2022)	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.
Amendments to Supplier Finance Arrangements (IAS 7 and IFRS 7)	Annual periods beginning on or after 1 January 2024 (Published May 2023)	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.
Amendments to IAS 21 Lack of Exchangeability (Amendments to IAS 21)	Annual periods beginning on or after 1 January 2025 (Published August 2023)	An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.
IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information	Annual periods beginning on or after 1 January 2024 (Published June 2023)	IFRS S1 provides guidance on identifying sustainability-related risks and opportunities, and the relevant disclosures to be made in respect of those sustainability-related risks and opportunities.
IFRS S2 Amendments to Climate-related Disclosures	Annual periods beginning on or after 1 January 2024 (Published June 2023)	IFRS S2 requires an entity to identify and disclose climate-related risks and opportunities that could affect the entity's prospects over the short, medium and long term. It also requires entities to consider specified industry metrics when disclosing qualitative and quantitative components on how the entity uses metrics and targets to measure, monitor and manage the identified material climate-related risks and opportunities.

These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Notes (continued)

2. Summary of material accounting policies (continued)

(d) Basis of consolidation

(i) Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identified net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The subsidiaries are shown in Note 33.

(iii) Non-controlling interest (NCI)

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

Notes (continued)

2. Summary of material accounting policies (continued)

(d) Basis of consolidation *(continued)*

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Presentation currency

(i) Presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which each subsidiary company operates ('the functional currency'). The functional currency for the Company is Kenyan Shillings. The financial statements are presented in Kenyan Shillings (KShs), which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within net foreign exchange gain. All other foreign exchange gains and losses are presented in the statement of profit or loss within 'other income' or 'other expenses.

(f) Use of estimates and judgement

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(g) Foreign currency translation

i.Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income.

Notes (continued)

2. Summary of material accounting policies (continued)

(g) Foreign currency translation

(i) Transactions and balances - continued

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Translation differences on non-monetary financial assets, such as equities classified as fair value through other comprehensive income, are included in other comprehensive income.

(ii) Group Companies

The results and financial position of all the group entities (one of which has the currency of a hyper-inflationary economy as at 31 December 2023) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of foreign subsidiaries are translated into Kenya Shillings at the rate of exchange ruling at the reporting date;
(ii) income and expenses for each statement of comprehensive income are translated at the weighted average exchange rates for the period; and
(iii) exchange differences arising on translation are recognised in other comprehensive income and accumulated in equity in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

(h) Recognition of income and expenses

i. Interest income and expenses

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

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

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate.

Notes (continued)

2. Summary of material accounting policies (Continued)

(h) Recognition of income and expenses (continued)

(I) Interest income and expenses (continued)

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

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

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

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

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at fair value through other comprehensive income.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

Interest income and expense on other financial assets and financial liabilities at fair value through profit or loss (FVTPL) are presented in net income from other financial instruments at FVTPL.

Notes (continued)

2. Summary of material accounting policies (continued)

(h) Recognition of income and expenses (continued)

(II) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(III) Risk premium

Risk premium fees are charged on unsecured loans issued to customers and members of staff and is meant to mitigate against risk of default arising from permanent death or disability. The net fees, minus any claims or other costs incurred, are recognised upfront as a liability and are armotised into the profit or loss over the tenure of the loan.

(IV) Fees and commission income and expenses

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

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(V) Rental income

Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

(VI) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

(i) Income Tax

i. Current income Tax

Current income tax expense comprises current income tax and change in deferred income tax. Income tax expense is recognized in profit or loss except to the extent that it related to items recognized directly in equity or other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. The amount of tax payable or recoverable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Notes (continued)

2. Summary of material accounting policies (continued)

(i) Income Tax (continued)

ii. Deferred Income Tax

Deferred income tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination, and which affects neither accounting nor taxable profit. It is also not recognised for temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future and the investor is able to control the timing of the reversal of the temporary difference.

Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis, or their tax assets and liabilities will be realized simultaneously.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(j) Financial assets and liabilities

(i) Recognition and measurement

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e., day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e., day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

Notes (continued)

2. Summary of material accounting policies (continued)

(j) Financial assets and liabilities (continued)

(i) Recognition and measurement

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

(ii) Classification and subsequent measurement of financial instruments

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL.

Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets, the amount presented on the statement of financial position represent all amounts receivable including interest accruals.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

IFRS 9 specifically requires:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at Fair Value Through Other Comprehensive Income (FVTOCI);

However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset- by-asset basis:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income; and
- the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g., if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Notes (continued)

2. Summary of material accounting policies (continued)

(j) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial instruments (continued)

Financial assets (continued)

Debt instruments at amortised cost or at FVTOCI (continued)

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset.

The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument; therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios.

The Group considers all relevant evidence available such as:
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g., whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Non-recourse loans
Non-recourse loan is a type of loan secured by collateral, which is usually property. If the borrower defaults, the Group can seize the collateral but cannot seek out the borrower for any further compensation, even if the collateral does not cover the full value of the defaulted amount.

Notes (continued)

2. Summary of material accounting policies (continued)

(j) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial instruments (continued)

Financial assets (continued)

Non-recourse loans (continued)

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

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

The guidelines/procedures on dealing with non-recourse loans as detailed in the Non-Performing Debts Management manual which summarily states that:

a) It is not the Group's policy to "nurse" or warehouse properties until the market picks up but to dispose them into the market quickly and at the best price. Disposal methods should be reviewed continuously to ensure the most effective method is being used.
b) While assets are awaiting disposal, the Group should make sure that proper administration is undertaken on these assets to protect their value.
c) Asset disposal should start immediately when the asset becomes ready for sale. This is specifically defined as the time when:
   i. The client surrenders voluntarily the asset or has agreed for the Group to sell the property.
   ii. The Group is awarded possession of the property by legal or other means. As the case may be, titles and ownership documents have been transferred to the Group's name and registered with the appropriate Land Registry.

Repossessed Collateral

The Group makes arrangement to dispose repossessed collateral to the market quickly and at the best price. Disposal processes commences immediately when the asset becomes ready for sale. While assets are not being disposed of, the Group endeavors to keep costs relative to the upkeep and maintenance of the assets to a minimum. Possessed moveable assets are stored at reputable storage yards approved by the Group or within Group premises.

Converting/lliquidating the assets in the Group's possession now is still better than holding the assets for a projected upturn in market price in the future which often do not materialize.

Notes (continued)

2. Summary of material accounting policies (continued)

(j) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial instruments (continued)

Financial assets (continued)

Repossessed collateral(continued)

The Group is not in asset and property trading/management, and thus does not take positions on the market trends.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 5- Fair value of financial instruments.

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment of financial assets

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

- loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

Notes (continued)

2. Summary of material accounting policies (continued)

(j) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial instruments (continued)

Financial assets(continued)

Impairment of financial assets (continued)

Except for Purchased Originated Credit Impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).
- A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 3.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

More information on measurement of ECLs is provided in note 4, including details on how instruments are ranked when they are assessed on a collective basis.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

Notes (continued)

2. Summary of material accounting policies (continued)

(j) Financial assets and liabilities (continued)

ii Classification and subsequent measurement of financial instruments (continued)

Financial assets (continued)

Credit-impaired financial assets (continued)

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a back- stop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see note 3).

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

This definition of default is used by the Group for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending.

Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Notes (continued)

2. Summary of material accounting policies (continued)

(j) Financial assets and liabilities (continued)

(ii) Classification and subsequent measurement of financial instruments (continued)

Financial assets (continued)

Definition of default (continued)

More details are provided in note 3. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore, credit impaired assets will include defaulted assets, but will also include other non-defaulted assets given the definition of credit impaired is broader than the definition of default.

Significant increase in credit risk

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL. The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information. See note 3 for more details about forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think- tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour.

The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward-looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL (please refer to note 4).

Notes (continued)

2. Summary of material accounting policies (continued)

(j) Financial assets and liabilities (continued)

ii Classification and subsequent measurement of financial instruments (continued)

Financial assets (continued)

Significant increase in credit risk (continued)

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL. In addition, loans that are individually assessed and are included on a watch list are in stage 2 of the impairment model. As noted, if there is evidence of credit-impairment the assets are at stage 3 of the impairment model.

More information about significant increase in credit risk is provided in note 4.

Modification and derecognition of financial assets

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

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

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity.

Notes (continued)

2. Summary of material accounting policies (continued)

(j) Financial assets and liabilities (continued)

(ii) Classification and subsequent measurement of financial instruments (continued)

Financial assets (continued)

Modification and derecognition of financial assets (continued)

If these do not clearly indicate a substantial modification, then a quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the Group considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition.

The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated- credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par-amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

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

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Group performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer credit impaired. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account in 'Losses on modification of financial assets'. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

Notes (continued)

2. Summary of material accounting policies (continued)

(j) Financial assets and liabilities (continued)

ii Classification and subsequent measurement of financial instruments (continued)

Financial assets (continued)

Modification and derecognition of financial assets (continued)

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss.

A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets' in the statement of profit or loss.

Presentation of allowance for ECL in the statement of financial position

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investment's revaluation reserve;
- for loan commitments and financial guarantee contracts: as a provision; and

Notes (continued)

2. Summary of material accounting policies (continued)

(j) Financial assets and liabilities (continued)

(ii) Classification and subsequent measurement of financial instruments (continued)

Presentation of allowance for ECL in the statement of financial position (continued)

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

Financial liabilities

Fair value changes are generally presented as follows:

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

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. For all financial liabilities, the amount presented on the statement of financial position represent all amounts payable including interest accruals. Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the ranking is provided internally on that basis; or
- it forms part of a hybrid (combined) contract, containing one or more embedded derivatives that significantly modifies the cash flows of the contract, or it is clear with little or no analysis that separation of the embedded derivative is not prohibited.

Financial liabilities at fair value through profit and loss (FVTPL) are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss.

Notes (continued)

2. Summary of material accounting policies (continued)

(j) Financial assets and liabilities (continued)

ii Classification and subsequent measurement of financial instruments (continued)

Financial liabilities (continued)

Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains, and losses are recognised in profit or loss.

Fair value is determined in the manner described in note 5.

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "interest income and expenses section" above.

Modification and derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. To determine if the modified terms of a liability are substantially different to the original terms a similar process with modification of financial assets is followed. The modification is assessed at first on a qualitative basis, factors such as a change in currency or the introduction of a non-closely related embedded derivative that significantly modifies the cash flows are regarded as substantially different. If it is not clear from the qualitative assessment that a modification has resulted in a substantial change in a financial liability, a quantitative assessment is applied. It is assumed that the terms of the financial liability are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the Group recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The Group recognises any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification. The financial liability modification gain/loss is not significant for the Group. Modification gains are presented in 'other income' and modification losses are presented in 'other expenses' in the profit or loss account.

Notes (continued)

2. Summary of material accounting policies (continued)

(j) Financial assets and liabilities (continued)

ii Classification and subsequent measurement of financial instruments (continued)

Offsetting financial assets and liabilities

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

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

(k) Property and equipment

(i) Recognition and measurement

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

Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Right of use assets are recognized at the commencement of the lease contract and is measured at cost less accumulated depreciation and accumulated impairment.

Property and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or at the expiration of a lease contract for right of use assets. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

(ii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each class of property and equipment. The annual depreciation rates in use are:

Freehold land	Nil
Leasehold improvements	Rates based on the shorter of the lease term or estimated useful lives
Motor vehicles	25%
Furniture and fittings	10%
Office equipment	20%
Computers	20%

The residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Changes in the expected useful life, residual values or methods of depreciation are accounted for as changes in accounting estimates.

Notes (continued)

2. Summary of material accounting policies (continued)

(k) Property and equipment (continued)

(iii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Group. Recurring repairs and maintenance costs are expensed as incurred.

(l) Intangible assets

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

Intangible assets with finite lives are amortized on a straight-line basis in profit or loss over their estimated useful economic lives, from the date that they are available for use.

The amortization method, useful life and the residual value are reviewed at each reporting date and adjusted if appropriate. Changes in the expected useful life, residual value or amortization method are accounted for as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

The useful lives of intangible assets are assessed to be either finite or indefinite. Costs associated with maintaining computer software programme are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programme beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortized using the straight-line method over a period of five years.

There are no intangible assets with indefinite useful lives.

(m) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

The Group leases several retail network premises (branches) and vehicles. The branch leases typically run for a period of 6 years, with an option to renew the lease after that date. Lease payments are renegotiated after the expiry of the lease to reflect market rental values. Some leases provide for additional rent payments that are based on changes in local price indices. Leases for the vehicles typically run for a period of two years with no renewal options.

i. Group as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Notes (continued)

2. Summary of material accounting policies (continued)

(m) Leases (continued)

Practical expedients applied

In applying IFRS 16, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- accounting for operating leases with a remaining lease term of less than 12 months as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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

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

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

Notes (continued)

2. Summary of material accounting policies (continued)

(m) Leases (continued)

i. Group as a lessee (continued)

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

Short-term leases and leases of low-value assets

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

i. Group as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for a major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in IFRS 16 to the net investment in the lease (see Note 31). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

(n) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

(o) Employee benefits

The Group operates both a defined contribution plan and defined benefit plan.

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as staff costs in profit or loss in the periods during which related services are rendered. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Notes (continued)

2. Summary of material accounting policies (continued)

(o) Employee benefits (continued)

(ii) Defined benefit plans

The Group also contributes to the statutory defined contribution in the various countries in which it operates. The Group's contribution to these schemes is charged to the income statement.

The Group's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of the economic benefits available in the form of any refunds from the plan or deductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which compromise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised immediately in other comprehensive income.

The Group determines the net interest (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during a period as a result of contributions and benefit payments.

Net interest expense and other expenses related to the defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that employees have earned in return for their service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on settlement of a defined benefit plan when the settlement occurs.

(iii) Other post – employment obligations

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

(iv) Short-term benefits

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity-based benefits and termination benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(v) Termination benefits

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

Notes (continued)

2. Summary of material accounting policies (continued)

(p) Fiduciary assets

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

(q) Contingent liabilities and loan commitments

Letters of credit, acceptances, guarantees and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the Directors.

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

(r) Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. Refer to note 20.

(s) Dividends

Dividends are recognised as a liability in the period in which they are declared and approved.

(t) Sale and repurchase agreements

Securities sold under sale and repurchased agreements (Repos) are retained in the financial statements with the counterparty liability included in amounts due to banking institutions. Securities purchased from the Central Bank of Kenya under agreement to resell (reverse Repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(u) Related parties

This relates to transactions entered into between groups entities at arms-length.

(v) Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(w) Share capital and reserves

Ordinary shares are classified as share capital in equity. Any premium received over and above the par value of the shares is classified as share premium.

Notes (continued)

2. Summary of material accounting policies (continued)

(x) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(y) Fair value measurements

IFRS 13, *Fair Value Measurement,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). That definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement.

When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk.

As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value. The standard explains that a fair value measurement requires an entity to determine the following:

- the particular asset or liability being measured;
- for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;
- the market in which an orderly transaction would take place for the asset or liability; and
- the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.

(z) Cash and cash equivalents

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

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

(aa) Investment property

Investment property relate to collateral (mainly properties) transferred to the bank to extinguish outstanding loan balances which are in default. The Group holds these properties for a considerable period of time in expectation of capital appreciation

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. The gain or loss on disposal of investment property is recognised in profit or loss.

The fair value of investment property is determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

Notes (continued)

2. Summary of material accounting policies (continued)

(ab) Investment in associates

Associates are all entities over which the Group has significant influence but not control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. This is generally the case where the Group holds between 20% and less than 50% of the voting rights of the entity. In assessing existence of significant influence, the Group considers among other parameters whether there is:

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in the policy-making process and material transactions between the investor and the investee;
- Interchange of managerial personnel between the investor and the investee; and
- Provision of essential technical information by the investor to the investee

Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividend received or receivable from associates are recognised as a reduction in the carrying amount of the investment. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

In certain instances, the requirement that significant influence arises from a 20% or more in investments can be invalidated where an entity can demonstrate that it does not have significant influence, or there is demonstrable presence of significant influence in an investment of less than 20% based on the above assessment criteria.

Investments in associates are accounted for using the equity method of accounting. The initial investment is recognised at cost of acquisition and any share of profit or loss from the investment is reflected as changes in the value of the investment.

Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

(ac) Comparatives

Except otherwise required, all amounts are reported or disclosed with comparative information. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

Notes (continued)

3. Critical accounting estimates and judgments

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Critical judgements in applying the Group's accounting policies

(a) Judgments

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

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets and liabilities sections of note 1). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk: As explained in note 1, ECL is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to note 4(a) for more details.

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are ranked on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 1 and note 4 for more details on ECL and note 7 for more details on fair value measurement.

Internal governance and controls were put in place in order to monitor the post-model adjustments based on the economic performance in the midst of the pandemic.

Notes (continued)

3. Critical judgements in applying the Group's accounting policies (continued)

(b) Assumptions and estimation uncertainties

The information relating to assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the financial statements are set out below.

(i) Impairment losses on loans and advances

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Group's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by the Directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

The Group also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances accounts cutting across various industries. Assets with similar risk characteristics are ranked together for the purpose of determining the collective impairment in the Group.

The following are key estimations that the directors have used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

a) Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario.

b) When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to note 3 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward-looking information.

c) Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See note 3 for more details, including analysis of the sensitivity of the reported ECL.

Notes (continued)

3. Critical judgements in applying the Group's accounting policies (continued)

(b) Assumptions and estimation uncertainties (continued)

(i) Impairment losses on loans and advances (continued)

d) Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See note 3 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

e) Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 5 for more details on fair value measurement.

(ii) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date.

All financial instruments are initially recognized at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value. The fair values of quoted financial instruments in active markets are based on current prices with no subjective judgments. If the market for a financial instrument does not exist or is not active including for unlisted securities, the Group establishes fair value by using valuation techniques.

These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(iii) Retirement benefits

The cost of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty and a change in any of the assumptions will alter the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Refer to note 47 for more information.

Notes (continued)

3. Critical judgements in applying the Group's accounting policies (continued)

(b) Assumptions and estimation uncertainties (continued)

(iii) Property and equipment

Property and equipment are depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

(iv) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax provisions in the period in which such determination is made. The group has applied the exemption not to recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

(v) Leases

The right of use is depreciated over the lease term considering the renewal option.
The Group will renew the lease when it is reasonably certain that the lease location is still economically viable to conduct business.

The Group will bear restoration costs upon relocation or end of lease where such is stipulated in the lease agreement.

Notes (continued)

4. Financial risk management

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group has established the Credit, Audit, Risk, Human Resources and Procurement and Information Technology committees, which are responsible for developing and monitoring the Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in these functions by a Risk and Compliance department which undertake reviews of risk management controls and procedures, the results of which are reported to the Risk Committee.

(a) Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

The Board of Directors has delegated responsibility for the management of credit risk to the Executive Credit Committee, which is responsible for oversight of the Group's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers. Larger facilities require approval by the Management Credit Committee or the Board Credit Committee as appropriate.

- *Reviewing and assessing credit risk.* The Credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

- *Developing and maintaining the Group's risk gradings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Board Credit Committee.

- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the credit department on the credit quality of local portfolios and appropriate corrective action is taken.

- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Group in the management of credit risk

Significant increase in credit risk

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises five categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Bank bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Internal credit risk ratings (continued)

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Group's internal credit risk grades.

The table below provides a mapping of the Group's internal credit risk grades.

Group's credit risk grades	Description	IFRS 9 Classification
10	Normal risk	Stage 1
20	Watch risk	Stage 2
30	Substandard risk	Stage 3
40	Doubtful risk	
50	Loss	

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices. The Group generates a 'base case' scenario of the future direction of relevant economic variables for each region as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative. The table below summarizes per type of asset the range above which an increase in lifetime PD is determined to be significant, as well as some indicative qualitative indicators assessed.

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

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Internal credit risk ratings (continued)

The table below provides an indicative mapping of how the Group's internal credit risk grades relate to PD and, for the wholesale portfolio, to external credit ratings of Moody's and S&P. The risk ratings are composed of a combination of the risk factors below. Each Risk factor has parameters which are assessed and the total score in each is mapped onto a rating

Risk Factor	Description	Weight
Financial Risk	Is the assessment of entity's assets & liabilities structure (i.e. the mix of long- and short-term debt, maturity structure, interest rates, collateralization and other elements), cash flows and P&L in the light of current financing conditions.	50%
Company	Is the assessment of the size and scope of the rated entity, which often drives its diversification in terms of products, customers and geography	10%
Management	Is the assessment of the quality and experience of the management team as well as its strategic objectives in light of the sector specifics.	10%
Banking Relationship	Is the assessment of the current and historical behaviour of the entity's with bank products	20%
Industry	Is the assessment of entity's future market, regulatory environment and industry environment with insights into competition, entry barriers and trends .	10%

Corporate

The corporate portfolio of the Group is comprised of loans and advances to banks, public sector entities, sovereigns, corporates and other businesses.

Staging	12-month weighted-average PD	Internal risk rating	Days past due
Grade 10	0.05%	AAA to A	0 - 30 days
Grade 20	12.611%	B- to C	31 – 89 days
Grade 30 – Grade 50	100%	Default	90 days and above

Retail & mortgage

The retail portfolios are comprised of mortgage lending, personal loans and credit cards.

Staging	12-month weighted-average PD Personal loans	12-month weighted-average PD Mortgage loans
Grade 10	5%	9%
Grade 20	57%	43%
Grade 30 – Grade 50	100%	100%

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Internal credit risk ratings (continued)

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

Relationship between the Group's internal credit ratings and external ratings

The Group's rating method comprises 2 rating levels for instruments not in default (Stage 1 & 2) and one default class (stage 3). The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of observed default trends. The Group's quantitative credit quality grading as compared to Central Bank of Kenya's prudential guidelines grading is summarised in the table below;

Staging	CBK grading	Days past due	Credit quality
Stage 1	Normal	Up to date within contractual terms or has less than 30 days arrears	Performing
Stage 2	Watch	31 to 90 days	Performing-SICR
Stage 3	Substandard	91 to 180 days	In Default
	Doubtful	181 to 360 days	
	Loss	above 360 days	

In addition to the standard credit ratings above, the Group also utilises other qualitative information relating to counterparties to determine their internal credit grading.

Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2023 for the years 2023 to 2027, for Kenya, Tanzania, Uganda, Rwanda, South Sudan, DRC Congo and Burundi which are the countries where the Group operates and therefore is the country that has a material impact in ECLs.

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Incorporation of forward-looking information (continued)

Kenya

Corporate

Macro-economic factor	2023	2024	2025	2026	2027
Consumer price index inflation, 2010=100, EOP	222.456	233.802	247.362	260.472	277.403
Lending rate, %, AVE	10	10.36	10.36	10	9.64
Nominal GDP per capita, USD	2028.173	2135.784	2284.177	2453.174	2702.763

Retail

Macro-economic factor	2023	2024	2025	2026	2027
Total debt service per capita, USD	71.68	87.15	95.60	95.73	107.63
Nominal GDP per capita, *LCU	236,890.59	258,323.02	280,954.71	305,260.16	333,862.84
Private final consumption per capita, USD	1,589.28	1,674.41	1,798.50	1,938.75	2,140.56

Mortgage

Macro-economic factor	2023	2024	2025	2026	2027
Consumer price index inflation, 2010=100, *AVE	226.87	239.57	253.23	267.15	283.18
Goods and services imports, *LCU millions	2,884,493	3,106,964	3,362,216	3,639,469	3,910,355
Lending rate, %, *EOP	10.36	10.36	10.36	9.64	9.64

The following are probability weightings applied in the forward - looking scenario analysis		
Upside	**Median/Central**	**Downside**
10%	80%	10%

Regional Subsidiaries

South Sudan

Macro-economic factor	2023	2024	2025	2026	2027
Goods and services exports, LCU	3,621.46	3,405.59	3,538.90	3,635.50	3,923.62
Balance of goods and services, LCU	644.09	200.71	89.03	-184.90	-343.70

Base	Upside	Downside
40.00%	20.00%	40.00%

Rwanda

Macro-economic factor	2023	2024	2025	2026	2027
Goods and services exports, LCU	948,292.99	95,534.72	100,148.60	106,126.20	112,118.26
Balance of goods and services, LCU	172,333.00	172,071.98	17,678.64	185,348.03	193,484.70

Base	Upside	Downside
40.00%	20.00%	40.00%

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Burundi

Macro-economic factor	2023	2024	2025	2026	2027
Goods and services exports, LCU	12,641.26	15,774.80	18,421.47	20,924.80	23,473.25
Balance of goods and services, LCU	2,830.76	3,496.76	4,020.87	4,500.77	4,984.38

Base	Upside	Downside
50.00%	10.00%	40.00%

Uganda

Macro-economic factor	2023	2024	2025	2026	2027
Goods and services exports, LCU	120,993.69	128,242.49	138,034.98	147,697.92	156,333.72
Balance of goods and services, LCU	5.12	5.46	5.96	6.48	6.94

Base	Upside	Downside
40.00%	20.00%	40.00%

Tanzania

Macro-economic factor	2023	2024	2025	2026	2027
Goods and services exports, LCU	89,805.08	103,475.21	120,761.78	139,528.16	158,992.34
Balance of goods and services, LCU	31,918.47	35,801.21	40,277.11	45,443.58	50,232.43

Base	Upside	Downside
70.00%	15.00%	15.00%

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

LCU – local currency unit
*AVE - Average
*EOP – End of Period

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified under Stage 1 and has its credit risk continuously monitored by the Group. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired (POCI) financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The key judgements and assumptions adopted by the Group in computing expected loss in line with IFRS 9 are as follows:

(a) Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

- Significant dip in operating results of the borrowers
- Credit distress necessitated extension to the terms granted
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Significant change in collateral value which is expected to increase risk of default
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

(b) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria: The borrower is more than 90 days past due on the contractual payments.

Qualitative criteria: The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance.
- The borrower is deceased.
- The borrower is insolvent.
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties.
- Concessions have been made by the lender relating to the borrower's financial difficulty.
- Increase in probability that the borrower will enter bankruptcy.
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

(b) Definition of default and credit-impaired assets (continued)

The above criteria has been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.
An instrument is considered to no longer be in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months is aligned to Central Bank of Kenya's prudential guidelines.

(c) Measuring ECL – Inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime (Lifetime EAD). For a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur, using a determined credit conversion factor.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment and multiplied together which effectively calculates an ECL.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. Where sufficient data is not available to estimate the 12-month PD transition into lifetime PDs, the Group interpolates its internal 12-month PD to external rating agencies long term proxies to estimate the lifetime PDs.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

(c) Measuring ECL – Inputs, assumptions and estimation techniques (continued)

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on expected recovery from collateral forced sale values, adjusted for time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically derived from past recoveries from past defaults of unsecured products or the residual unsecured portions of partly secured exposures.

(d) Forward looking information factor

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact are adjusted to the ECL. The forward-looking economic variables have been adjusted by a management multiplier.

Sensitivity analysis

The most significant assumption affecting the ECL allowance is interest rates given its impact on borrowers' ability to meet their contractual repayments. Other forward-looking consideration not otherwise incorporated within the calculation of ECL, such as inflation, GDP and exchange rates, have been considered but do not have a material impact therefore no adjustment has been to ECL for such factors. This is reviewed and monitored periodically.

Set out below are the changes to the ECL as at 31 December 2023 that would result from reasonably possible changes in this parameter from actual assumptions used in the Group's economic variable assumptions;

				Interest rates
		2023		**2022**
	-5%	**5%**	**-5%**	**5%**
	KShs millions	**KShs millions**	**KShs millions**	**KShs millions**
Corporate portfolio	(54)	54	65	(65)
Retail portfolio	(3)	3	145	(145)

(e) Impaired financial assets

Impaired financial assets are those which the Group determines it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are classified under stage 3 in the Group's internal credit risk grading system and graded as grade 3 to 5 as required by the regulator. According to the Central Bank of Kenya prudential guidelines, loans and advances overdue by over 90 days are considered non-performing.

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

(f) Past due but not impaired financial assets

Financial assets where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group. Loans under this category are no more than 90 days overdue.

(g) Loans and advances that are neither past due nor impaired

The Group classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress.

Rankings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are ranked on the basis of shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value (LTV) ratios).

The rankings are reviewed on a regular basis to ensure that each Group is comprised of homogenous exposures.

The Group uses external benchmark information for portfolios with limited historical data. The table below depicts the portfolios for which external benchmark information represents a significant input into measurement of ECL. No collateral is held for these exposures.

	Exposure (million)	**External benchmark PD**	**External benchmark LGD**
Cash and bank balances	136,111	Sovereign	S& P ratings
Financial assets held through FVOCI	200,275	Sovereign	S& P ratings
Financial assets held through FVTPL	69	Sovereign	S& P ratings
Financial assets held at amortized costs	196,859	Sovereign	S& P ratings
Loans and advances to banks	370,399	Corporate	S& P ratings
Other assets and prepayments	65,653	Corporate	S& P ratings
Off balance sheet	534,621	Corporate	S& P ratings

* Financial guarantees only

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

Credit quality

The Group monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

Class of financial instrument	Financial statement line	Note
Loans and advances to banks at amortised cost	Loans and advances to other banks	Note 22
Loans and advances to customers at amortised cost	Loans and advances to customers	Note 26
Debt investment securities at amortised cost	Financial assets at amortised costs	Note 27
Debt investment securities at FVTOCI	Financial assets at FVOCI	Note 23
Loan commitments and financial guarantee contracts	None	Note 4
Other financial assets	Other financial assets	Note 4

An analysis of the Group's credit risk concentrations per class of financial asset is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Loans and advances at amortised cost

	Kenya	Tanzania	Uganda	Rwanda	South Sudan	Burundi	DR Congo	Total
	Kshs million	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million
31-Dec-23	914,091	56,901	32,929	77,767	9,726	7,116	104,361	1,202,891
31-Dec-22	743,532	35,745	20,610	56,655	4,516	5,562	65,545	932,165

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

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

The table below analyses the movement of the gross loans during the year.

Gross loans

	Corporate Kshs million	Mortgages KShs million	Retail KShs million	Total KShs million
2023				
Loans and advances to customers				
Gross loans and advances to customers	**629,782**	**169,611**	**403,498**	**1,202,891**
Of which stage 1 and 2	514,061	148,836	368,093	1,030,990
Of which stage 3	115,721	20,775	35,405	171,901
Expected credit loss provisions	**82,650**	**3,836**	**22,116**	**108,602**
Of which stage 1 and 2	670	741	3,335	4,746
Of which stage 3	81,980	3,095	18,781	103,856
Net loans and advances to customers	**547,132**	**165,775**	**381,382**	**1,094,289**
Of which stage 1 and 2	513,391	148,095	364,758	1,026,244
Of which stage 3	33,741	17,680	16,624	68,045
2022				
Loans and advances to customers				
Gross loans and advances to customers	**475,886**	**105,737**	**350,542**	**932,165**
Of which stage 1 and 2	283,647	91,505	332,867	708,019
Of which stage 3	192,239	14,232	17,675	224,146
Expected credit loss provisions	**50,116**	**3,263**	**18,106**	**71,485**
Of which stage 1 and 2	3,806	1,511	7,475	12,792
Of which stage 3	46,310	1,752	10,631	58,693
Net loans and advances to customers	**425,770**	**102,474**	**332,436**	**860,680**
Of which stage 1 and 2	279,841	89,994	325,392	695,227
Of which stage 3	145,929	12,480	7,044	165,453

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

Total Group	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	Kshs million	**KShs million**	**KShs million**	**KShs million**
Loans and advances as at 1 January 2023	**649,151**	**161,193**	**121,821**	**932,165**
Changes in the loss allowance				
– Transfer to stage 1	62,445	(59,779)	(2,666)	-
– Transfer to stage 2	(39,403)	39,639	(236)	-
– Transfer to stage 3	(5,503)	(14,673)	20,176	-
Net remeasurement of loss allowance	(26,863)	12,924	8,476	(5,463)
New financial assets originated or purchased	398,093	94,774	34,932	527,799
Financial assets that have been derecognised	(204,699)	(37,389)	(9,522)	(251,610)
Loans and advances as at 31 December 2023	**833,221**	**196,689**	**172,981**	**1,202,891**
Loans and advances as at 1 January 2022	519,536	100,369	121,660	**741,565**
Changes in the loss allowance				
– Transfer to stage 1	4,965	(5,216)	251	-
– Transfer to stage 2	(32,759)	35,092	(2,333)	-
– Transfer to stage 3	(6,780)	(12,133)	18,913	-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated or purchased	292,009	66,259	14,252	372,520
Financial assets that have been derecognised	(127,820)	(23,178)	(30,922)	(181,920)
Loans and advances as at 31 December 2022	**649,151**	**161,193**	**121,821**	**932,165**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

The tables below analyse the movement of the gross loans during the year per class of assets in the year ended 31 December 2023:

CORPORATE -MORTGAGE	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	Kshs million	KShs million	KShs million	KShs million
Loans and advances as at 1 January 2023	29,115	955	8,257	38,327
Changes in the loss allowance				
– Transfer to stage 1	1,757	(1,636)	(121)	-
– Transfer to stage 2	(4,980)	4,934	46	-
– Transfer to stage 3	(84)	(1,664)	1,748	-
Net remeasurement of loss allowance	897	3	263	1,163
New financial assets originated or purchased	34,992	2,950	3,402	41,344
Financial assets that have been derecognised	(1,978)	(1,421)	(234)	(3,633)
Loans and advances as at 31 December 2023	**59,719**	**4,121**	**13,361**	**77,201**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

CORPORATE -OVERDRATFS	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	Kshs million	**KShs million**	**KShs million**	**KShs million**
Loans and advances as at 1 January 2023	23,627	767	2,037	26,431
Changes in the loss allowance				
– Transfer to stage 1	19,211	(19,211)	-	-
– Transfer to stage 2	(1,699)	1,699	-	-
– Transfer to stage 3	(120)	(37)	157	-
Net remeasurement of loss allowance	608	(223)	303	688
New financial assets originated or purchased	12,495	47,024	(15)	59,504
Financial assets that have been derecognised	(3,171)	(296)	(224)	(3,691)
Loans and advances as at 31 December 2023	**50,951**	**29,723**	**2,258**	**82,932**
CORPORATE -TERM LOANS				
Loans and advances as at 1 January 2023	202,676	143,897	101,019	447,592
Changes in the loss allowance				
– Transfer to stage 1	32,580	(32,432)	(148)	-
– Transfer to stage 2	(17,962)	17,426	536	-
– Transfer to stage 3	(261)	(5,163)	5,424	-
Net remeasurement of loss allowance	1,620	17,496	3,325	22,441
New financial assets originated or purchased	92,465	38,133	9,028	139,626
Financial assets that have been derecognised	(24,207)	(32,881)	(5,721)	(62,809)
Loans and advances as at 31 December 2023	**286,911**	**146,476**	**113,463**	**546,850**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

RETAIL -MORTGAGE	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	Kshs million	KShs million	KShs million	KShs million
Loans and advances as at 1 January 2023	54,328	5,492	5,401	65,221
Changes in the loss allowance				
– Transfer to stage 1	1,697	(1,413)	(284)	-
– Transfer to stage 2	(2,746)	2,940	(194)	-
– Transfer to stage 3	(334)	(831)	1,165	-
Net remeasurement of loss allowance	(3,067)	(251)	102	(3,216)
New financial assets originated or purchased	31,076	3,600	1,790	36,466
Financial assets that have been derecognised	(4,797)	(698)	(566)	(6,061)
Loans and advances as at 31 December 2023	**76,157**	**8,839**	**7,414**	**92,410**

RETAIL -OVERDRAFTS	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans and advances as at 1 January 2023	12,857	1,730	5,150	19,737
Changes in the loss allowance				
– Transfer to stage 1	322	(295)	(27)	-
– Transfer to stage 2	(628)	649	(21)	-
– Transfer to stage 3	(334)	(138)	472	-
Net remeasurement of loss allowance	450	(44)	(192)	214
New financial assets originated or purchased	6,051	977	574	7,602
Financial assets that have been derecognised	(8,150)	(278)	(476)	(8,904)
Loans and advances as at 31 December 2023	**10,568**	**2,601**	**5,480**	**18,649**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

RETAIL -TERM LOANS	Stage 1 12-month ECL Kshs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2023	323,811	7,600	3,446	334,857
Changes in the loss allowance				
– Transfer to stage 1	7,124	(4,983)	(2,141)	-
– Transfer to stage 2	(11,531)	12,161	(630)	-
– Transfer to stage 3	(6,513)	(2,426)	8,939	-
Net remeasurement of loss allowance	(30,129)	(4,016)	4,750	(29,395)
New financial assets originated or purchased	131,310	8,085	18,359	157,754
Financial assets that have been derecognised	(73,757)	(1,812)	(2,798)	(78,367)
Loans and advances as at 31 December 2023	**340,315**	**14,609**	**29,925**	**384,849**
CORPORATE -MORTGAGE				
Loans and advances as at 1 January 2022	20,245	369	6,746	27,360
Changes in the loss allowance				
– Transfer to stage 1	1,098	(944)	(154)	-
– Transfer to stage 2	(2,516)	2,051	465	-
– Transfer to stage 3	(391)	(872)	1,263	-
New financial assets originated or purchased	14,002	379	58	14,439
Financial assets that have been derecognised	(3,323)	(28)	(121)	(3,472)
Loans and advances as at 31 December 2022	**29,115**	**955**	**8,257**	**38,327**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

CORPORATE -OVERDRATFS	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	KShs million	KShs million	KShs million	KShs million
Loans and advances as at 1 January 2022	9,965	2,160	761	12,886
Changes in the loss allowance				
– Transfer to stage 1	584	(580)	(4)	-
– Transfer to stage 2	(939)	938	1	-
– Transfer to stage 3	(25)	(1,143)	1,168	-
New financial assets originated or purchased	15,069	348	541	15,958
Financial assets that have been derecognised	(1,027)	(956)	(430)	(2,413)
Loans and advances as at 31 December 2022	**23,627**	**767**	**2,037**	**26,431**
CORPORATE -TERM LOANS				
Loans and advances as at 1 January 2022	173,707	88,823	104,310	366,840
Changes in the loss allowance				
– Transfer to stage 1	3,297	(3,199)	(98)	-
– Transfer to stage 2	(22,233)	25,000	(2,767)	-
– Transfer to stage 3	(2,063)	(7,844)	9,907	-
New financial assets originated or purchased	83,249	61,150	12,300	156,699
Financial assets that have been derecognised	(33,281)	(20,033)	(22,633)	(75,947)
Loans and advances as at 31 December 2022	**202,676**	**143,897**	**101,019**	**447,592**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

RETAIL -MORTGAGE	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	KShs million	**KShs million**	**KShs million**	**KShs million**
Loans and advances as at 1 January 2022	49,023	2,124	4,937	56,084
Changes in the loss allowance				
– Transfer to stage 1	944	(706)	(238)	-
– Transfer to stage 2	(2,335)	2,361	(26)	-
– Transfer to stage 3	(708)	(485)	1,193	-
New financial assets originated or purchased	13,599	2,914	963	17,476
Financial assets that have been derecognised	(6,195)	(716)	(1,428)	(8,339)
Loans and advances as at 31 December 2022	**54,328**	**5,492**	**5,401**	**65,221**

RETAIL -OVERDRAFTS				
Loans and advances as at 1 January 2022	11,796	876	4,890	17,562
Changes in the loss allowance				
– Transfer to stage 1	318	(309)	(9)	-
– Transfer to stage 2	(640)	696	(56)	-
– Transfer to stage 3	(270)	(79)	349	-
New financial assets originated or purchased	3,934	769	1,989	6,692
Financial assets that have been derecognised	(2,281)	(223)	(2,013)	(4,517)
Loans and advances as at 31 December 2022	**12,857**	**1,730**	**5,150**	**19,737**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

RETAIL -TERM LOANS	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2022	254,800	6,017	16	260,833
Changes in the loss allowance				
– Transfer to stage 1	2,802	(2,051)	(751)	-
– Transfer to stage 2	(4,284)	4,313	(29)	-
– Transfer to stage 3	(3,751)	(1,350)	5,101	-
New financial assets originated or purchased	176,678	2,823	2,060	181,561
Financial assets that have been derecognised	(102,434)	(2,152)	(2,951)	(107,537)
Loans and advances as at 31 December 2022	**323,811**	**7,600**	**3,446**	**334,857**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

The tables below analyses the movement of the loss allowance during the year.

TOTAL GROUP	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	Kshs million	KShs million	KShs million	KShs million
Loans and advances as at 1 January 2023	18,650	6,411	46,424	**71,485**
Changes in the loss allowance				-
– Transfer to stage 1	2,129	(1,326)	(803)	-
– Transfer to stage 2	(494)	1,074	(580)	-
– Transfer to stage 3	(271)	(3,395)	3,666	-
Net remeasurement of loss allowance	(1,243)	2,182	6,624	**7,563**
New financial assets originated or purchased	932	3,480	40,058	**44,470**
Financial assets that have been derecognised	(8,463)	(1,666)	(4,787)	**(14,916)**
Loans and advances as at 31 December 2023	**11,240**	**6,760**	**90,602**	**108,602**
Loss allowance as at 1 January 2022	11,279	5,311	53,156	69,746
Changes in the loss allowance				
– Transfer to stage 1	331	(333)	2	-
– Transfer to stage 2	(294)	1,238	(944)	-
– Transfer to stage 3	(137)	(161)	298	-
Net remeasurement of loss allowance	(1,933)	611	1,322	-
New financial assets originated or purchased	14,643	1,327	3,440	19,410
Financial assets that have been derecognised	(5,239)	(1,582)	(10,850)	(17,671)
Loss allowance as at 31 December 2022	**18,650**	**6,411**	**46,424**	**71,485**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

The tables below analyses the movement of the loss allowance during the year per class of assets.

CORPORATE-MORTGAGE	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	Kshs million	KShs million	KShs million	KShs million
Loans and advances as at 1 January 2023	439	647	761	1,847
Changes in the loss allowance				
– Transfer to stage 1	5	(5)	-	-
– Transfer to stage 2	(33)	(183)	216	-
– Transfer to stage 3	(3)	(61)	64	-
Net remeasurement of loss allowance	(80)	(8)	88	-
New financial assets originated or purchased	3,021	444	1,032	4,497
Financial assets that have been derecognised	(202)	(125)	(224)	(551)
Loans and advances as at 31 December 2023	**3,147**	**709**	**1,937**	**5,793**

CORPORATE-OVERDRAFTS				
Loss allowance as at 1 January 2023	890	95	-	985
Changes in the loss allowance				
– Transfer to stage 1	611	(611)	-	-
– Transfer to stage 2	(57)	57	-	-
– Transfer to stage 3	(1)	(320)	321	-
Net remeasurement of loss allowance	51	79	351	481
New financial assets originated or purchased	107	913	4,303	5,323
Financial assets that have been derecognised	(2,256)	(41)	(28)	(2,325)
Loss allowance as at 31 December 2023	**(655)**	**172**	**4,947**	**4,464**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

CORPORATE-TERM LOANS	**Stage 1 12-month ECL Kshs million**	**Stage 2 Lifetime ECL KShs million**	**Stage 3 Lifetime ECL KShs million**	**Total KShs million**
Loans and advances as at 1 January 2023	11,835	4,305	33,946	50,086
Changes in the loss allowance				
– Transfer to stage 1	505	(508)	3	-
– Transfer to stage 2	(47)	431	(384)	-
– Transfer to stage 3	(5)	(3,327)	3,332	-
Net remeasurement of loss allowance	414	2,473	(1,315)	1,572
New financial assets originated or purchased	4,972	758	34,850	40,580
Financial assets that have been derecognised	(107)	(21,921)	(1,820)	(23,848)
Loans and advances as at 31 December 2023	**17,567**	**17,789**	**68,612**	**68,390**

RETAIL-MORTGAGE				
Loss allowance as at 1 January 2023	420	142	930	1,492
Changes in the loss allowance				
– Transfer to stage 1	2	(12)	10	-
– Transfer to stage 2	(16)	29	(13)	-
– Transfer to stage 3	(16)	(17)	33	-
Net remeasurement of loss allowance	(41)	(33)	91	17
New financial assets originated or purchased	(1)	28	261	288
Financial assets that have been derecognised	(128)	(44)	(153)	(325)
Loss allowance as at 31 December 2023	**220**	**93**	**1,159**	**1,472**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

RETAIL-OVERDRAFTS	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	Kshs million	KShs million	KShs million	KShs million
Loans and advances as at 1 January 2023	951	948	800	2,699
Changes in the loss allowance				
– Transfer to stage 1	31	(34)	3	-
– Transfer to stage 2	(37)	51	(14)	-
– Transfer to stage 3	(12)	(28)	40	-
Net remeasurement of loss allowance	(41)	8	25	(8)
New financial assets originated or purchased	169	163	702	1,034
Financial assets that have been derecognised	(322)	(463)	(1,103)	(1,888)
Loans and advances as at 31 December 2023	**739**	**645**	**453**	**1,837**

RETAIL-TERM LOANS	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2023	4,407	840	9,129	14,376
Changes in the loss allowance				
– Transfer to stage 1	974	(155)	(819)	-
– Transfer to stage 2	(304)	689	(385)	-
– Transfer to stage 3	(246)	(157)	403	-
Net remeasurement of loss allowance	282	4,054	3,874	8,210
New financial assets originated or purchased	3,887	909	2,738	7,534
Financial assets that have been derecognised	(1,812)	(203)	(1,459)	(3,474)
Loss allowance as at 31 December 2023	**7,188**	**5,977**	**13,481**	**26,646**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

CORPORATE-MORTGAGE	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	KShs million	KShs million	KShs million	KShs million
Loans and advances as at 1 January 2022	303	610	1,145	2,058
Changes in the loss allowance				
– Transfer to stage 1	12	(4)	(8)	-
– Transfer to stage 2	(3)	8	(5)	-
– Transfer to stage 3	(3)	(5)	8	-
Net remeasurement of loss allowance	23	21	89	133
New financial assets originated or purchased	109	21	39	169
Financial assets that have been derecognised	(2)	(4)	(507)	(513)
Loans and advances as at 31 December 2022	**439**	**647**	**761**	**1,847**

CORPORATE-OVERDRAFTS				
Loss allowance as at 1 January 2022	7	-	51	58
Changes in the loss allowance				
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	144	41	(6)	179
New financial assets originated or purchased	740	54	8	802
Financial assets that have been derecognised	(1)	-	(53)	(54)
Loss allowance as at 31 December 2022	**890**	**95**	**-**	**985**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

CORPORATE-TERM LOANS	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	KShs million	KShs million	KShs million	KShs million
Loans and advances as at 1 January 2022	3,508	2,999	41,135	47,642
Changes in the loss allowance				
– Transfer to stage 1	26	(26)	-	-
– Transfer to stage 2	(23)	909	(886)	-
– Transfer to stage 3	(4)	(26)	30	-
Net remeasurement of loss allowance	(363)	1,289	(769)	157
New financial assets originated or purchased	11,721	526	941	13,188
Financial assets that have been derecognised	(3,030)	(1,366)	(6,505)	(10,901)
Loans and advances as at 31 December 2022	**11,835**	**4,305**	**33,946**	**50,086**
RETAIL-MORTGAGE				
Loss allowance as at 1 January 2022	408	87	932	1,427
Changes in the loss allowance				
– Transfer to stage 1	(21)	2	19	-
– Transfer to stage 2	(4)	(7)	11	-
– Transfer to stage 3	(1)	(2)	3	-
Net remeasurement of loss allowance	23	45	104	172
New financial assets originated or purchased	22	19	48	89
Financial assets that have been derecognised	(7)	(2)	(187)	(196)
Loss allowance as at 31 December 2022	**420**	**142**	**930**	**1,492**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

RETAIL-OVERDRAFTS	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	KShs million	KShs million	KShs million	KShs million
Loans and advances as at 1 January 2022	1,555	707	1,893	4,155
Changes in the loss allowance				
– Transfer to stage 1	163	(160)	(3)	-
– Transfer to stage 2	(147)	191	(44)	-
– Transfer to stage 3	(34)	(31)	65	-
Net remeasurement of loss allowance	(518)	140	180	(198)
New financial assets originated or purchased	191	225	77	493
Financial assets that have been derecognised	(259)	(124)	(1,368)	(1,751)
Loans and advances as at 31 December 2022	**951**	**948**	**800**	**2,699**

RETAIL-TERM LOANS	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2022	5,498	921	8,000	14,419
Changes in the loss allowance				
– Transfer to stage 1	149	(144)	(5)	-
– Transfer to stage 2	(116)	136	(20)	-
– Transfer to stage 3	(95)	(98)	193	-
Net remeasurement of loss allowance	(1,241)	(113)	1,642	288
New financial assets originated or purchased	1,683	229	1,545	3,457
Financial assets that have been derecognised	(1,471)	(91)	(2,226)	(3,788)
Loss allowance as at 31 December 2022	**4,407**	**840**	**9,129**	**14,376**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

Other Financial Assets and cash

	Cash & Central Bank Balances	Loans to Banks	Financial assets FVTOCI	Financial assets FVTPL	Financial assets Armotized cost	Total
Other Financial Assets	**KShs million**	**KShs million**	**KShs million**	**KShs million**	**KShs million**	**KShs million**
Gross carrying amount as at 1 January 2023	100,400	163,632	113,498	17,403	164,522	559,455
Changes in the loss allowance						-
– Transfer to stage 1	-	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-	-
– Write-offs	-	-	-	-	-	-
New financial assets originated or purchased	27,552	239,646	161,051	1,332	34,111	463,692
Financial assets that have been derecognised	(22,832)	(1,888)	(74,274)	(18,667)	(1,775)	- 119,436
Gross carrying amount as at 31 December 2023	**105,120**	**401,390**	**200,275**	**68**	**196,858**	**903,711**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

	Cash & Central Bank Balances	Loans to Banks	Financial assets FVTOCI	Financial assets FVTPL	Financial assets Armotized cost	Total
Other Financial Assets	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million
Gross carrying amount as at 1 January 2022	71,612	26,642	139,704	5,462	131,127	**374,547**
Changes in the loss allowance						-
– Transfer to stage 1	-	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-	-
– Write-offs	-	-	-	-	-	-
New financial assets originated or purchased	33,307	143,493	-	16,566	38,545	231,911
Financial assets that have been derecognised	(4,519)	(6,503)	(26,206)	(4,625)	(5,150)	(47,003)
Gross carrying amount as at 31 December 2022	100,400	163,632	113,498	17,403	164,522	559,455

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value.

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value (see note 1 Presentation of allowance for ECL). The Group does not hold any lease receivables.

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is KShs 10,997million at 31 December 2023 (2022: KShs 10,997 million). As discussed above in the significant increase in credit risk section, under the Group's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

	Year ended 2023		Year ended 2022	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Loans and advances to customers	**Kshs million**	**Kshs million**	**Kshs million**	**Kshs million**
0-29 days	830,209	15,747	519,031	10,900
30-59 days	-	-	109,222	694
60-89 days	130,909	2,253	142,708	1,198
90-180 days	20,925	22,608	25,854	3,648
More than 181 days	220,848	67,994	135,350	55,045
Total	**1,202,891**	**108,602**	**932,165**	**71,485**

Modified financial assets

As a result of the Group's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition.

Financial assets (with loss allowance based on lifetime ECL) modified during the period	**Year ended 2023 Kshs million**	**Year ended 2022 Kshs million**
Gross carrying amount before modification	22,389	69,783
Loss allowance before modification	(1,878)	(4,547)
Net amortised cost before modification	20,511	65,236
Net modification gain/(loss)	784	-
Net amortised cost after modification	21,295	65,236

Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL	**Year ended 2023 Kshs million**	**Year ended 2022 Kshs million**
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL basis after modification	-	-

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The collateral presented relates to instruments that are measured at FVTOCI, amortised cost and at FVTPL.

The Group also holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

The Group did not hold any financial instrument for which no loss allowance is recognised because of collateral at 31 December 2023. There was no change in the Group's collateral policy during the year.

Derivatives and loans and advances to banks (reverse sale and repurchase agreements and securities borrowing)

The Group does not hold any derivatives.

Mortgage lending

The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals. The tables below show the exposures from mortgage loans by ranges of LTV.

	Year ended 2023		Year ended 2022	
Mortgage lending LTV ratio	**Gross carrying amount**	**Loss allowance**	**Gross carrying**	**Loss allowance**
	Kshs million	**Kshs million**	**Kshs million**	**Kshs million**
Less than 50%	41,364	419	36,362	703
51-70%	18,642	122	15,878	107
71-90%	24,449	868	23,514	226
91-100%	6,084	351	5,295	236
More than 100%	19,012	1,642	14,683	1,070
Total	**109,551**	**3,402**	**95,732**	**2,342**

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

Mortgage lending – continued

Credit impaired – mortgage lending LTV ratio	Year ended 2023 Gross carrying amount	Year ended 2023 Loss allowance	Year ended 2022 Gross carrying amount	Year ended 2022 Loss allowance
	Kshs million	Kshs million	Kshs million	Kshs million
Less than 50%	2,206	362	2,561	111
51-70%	2,615	93	2,391	109
71-90%	4,370	822	1,650	150
91-100%	2,199	299	1,347	183
More than 100%	7,418	1,437	5,899	804
Total	**18,808**	**3,013**	**13,848**	**1,357**

Personal lending

The Group's personal lending portfolio consists of unsecured loans and credit cards.

Corporate lending

The Group requests collateral and guarantees for corporate lending. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason the valuation of collateral held against corporate lending is not routinely updated. The valuation of such collateral is updated if the loan is put on "watch-list" and is therefore monitored more closely.

For credit-impaired loans the Group obtains appraisals of collateral to inform its credit risk management actions. At 31 December 2023 the net carrying amount of loans and advances to corporate customers was KShs 547 million (2022 – KShs 423 million) and the value of the respective collateral was KShs 2,201 million (2022 – KShs 2,201 million).

Investment securities

The Group holds investment securities measured at amortised cost with a carrying amount of KShs 197 million (2022: 165 million) and at FVTOCI with a carrying amount of KShs 200 million (2022: 113 million). The investment securities held by the Group are sovereign bonds and corporate bonds, which are not collateralised, as well as asset backed securities, which are secured by financial assets.

Lease receivables

The Group does not have any lease receivables.

Assets obtained by taking possession of collateral

The Group obtained financial assets during the year by taking possession of collateral held as security against loans and advances. The Group's policy is to realise collateral on a timely basis. The Group does not use non-cash collateral for its operations.

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality – continued

(i) Past due but not impaired loans and advances

Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of stage of collection of amounts owed to the Group. As at 31 December, the ageing analysis of past due but not impaired loans and advances was as follows:

	GROUP		COMPANY	
	2023	2022	2023	2022
	Kshs million	Kshs million	Kshs million	Kshs million
Less than 60 days	204,211	133,550	-	-
Between 60 and 120 days	17,762	23,152	-	-
Greater than 120 days	12,497	21,045	-	-
	234,470	**177,747**	**-**	**-**

Credit related commitment risk

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

(ii) Write-off policy

The Group writes off a loan balance as and when the Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(iii) Collateral on loans and advances

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property and other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

(iv) Concentration of credit risk

The Group focuses on the diversification of its lending portfolio by setting industry sector limits based on forecasts spanning a one-year horizon to ensure that its performance is not negatively impacted by a large sectoral exposure default. Additionally, regular stress tests are performed on the portfolio to ensure that the Group holds sufficient capital to withstand any loss arising from significant exposure to a sector, single customer and group of closely related customers.

Notes (continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

(v) Concentration of credit risk - continued

Overall, it is the policy of the Group to limit credit risk exposures and concentrations within the constraints of its capital base. An analysis of concentrations of credit risk at the reporting date is shown below:

	GROUP		**COMPANY**	
	2023 Kshs million	**2022 Kshs million**	**2023 Kshs million**	**2022 Kshs million**
Personal/household	381,488	367,249	-	-
Real Estate	150,372	134,742	-	-
Manufacturing	184,398	120,185	-	-
Building and construction	100,177	67,157	-	-
Trade	123,630	90,467	-	-
Financial services	20,499	11,610	-	-
Transport and communication	78,358	54,500	-	-
Tourism, restaurants and hotels	42,606	35,647	-	-
Energy and water	44,456	23,516	-	-
Agriculture	44,220	25,875	-	-
Mining and quarrying	32,687	1,217	-	-
	1,202,891	**932,165**	**-**	**-**

(v) Fair value of collateral held

The Group holds collateral against loans and advances to customers in the form of cash, residential, commercial and industrial property; fixed assets such as plant and machinery; marketable securities; bank guarantees and letters of credit.

The Group also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral. Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back tested at least annually.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2023 and 31 December 2022. An estimate of fair values of collaterals held against loans and advances to customers at the end of the year was as follows:

	GROUP		**COMPANY**	
	2023 Kshs million	**2022 Kshs million**	**2023 Kshs million**	**2022 Kshs million**
Impaired loans	77,616	163,000	-	-
Performing loans	2,781,348	2,897,449	-	-
	2,858,964	**3,060,449**	**-**	**-**

Notes (continued)

4. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group, though solvent either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due or can secure them only at excessive costs.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

To address any liquidity risk negative gaps, the group has an Assets & Liabilities Committee that directs mobilization of deposits and where needed supports big tickets through aggressive pricing, halts or significantly curtails asset growth. The Group uses the interbank borrowing or disposes government securities to address short -term negative gaps.

Details of the reported Group's ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	2023	2022
At close of the year	39.3%	40.9%
Average for the year	39.5%	38.8%
Maximum for the year	41.3%	40.9%
Minimum for the year	37.3%	36.9%

The liquidity position across the group subsidiaries as at the reporting date were as follows:

	KCBK	NBK	KCBU	KCBB	KCBSS	BPR	KCBT	TMB
Liquidity Ratio	46.2%	43.5%	27.0%	64.3%	57.5%	27.8%	25.0%	135.8%
Statutory Minimum	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	100.0%
Excess	**26.2%**	**23.5%**	**7.0%**	**44.3%**	**37.5%**	**7.8%**	**5.0%**	**35.8%**

Notes (continued)

4. Financial risk management (continued)

(b) Liquidity risk (continued)

The tables below summarize the Group' and Company's liquidity risk as at 31 December 2023 and 31 December 2022, categorized into relevant maturity groupings based on the remaining contractual maturities.

Group **At 31 December 2023**	**Up to 1 month** **Kshs million** Kshs million	**1 - 3 months** **Kshs million**	**3 - 12 months** **Kshs million**	**1 - 5 years** **Kshs million**	**Over 5 years** **Kshs million**	**Total** **Kshs million**
Cash and balances with Central Banks	112,280	13,922	2,627	3,843	4,719	137,391
Loans and advances to Banks	364,190	4,409	149	271	100	369,119
Financial assets at FVTPL	-	-	-	-	69	69
Financial Assets at amortised cost	1,198	5,712	11,292	26,546	152,110	196,858
Financial Assets at fair value through OCI	10,691	36,690	6,304	32,197	114,574	200,456
Loans and advances to customers	172,265	106,144	149,086	353,291	1,060,164	1,840,950
Investment in equity	-	-	-	-	1,580	1,580
Investment property	-	-	-	-	12,766	12,766
Other assets	11,414	48,125	206	881	5,126	65,752
Total financial assets	**672,038**	**215,002**	**169,664**	**417,029**	**1,351,208**	**2,824,941**
Deposits from banks	71,663	8,445	11,069	1,318	-	92,495
Deposits from customers	1,080,511	338,515	136,919	102,898	732,066	2,390,909
Retirement benefits obligation	-	-	-	-	-	-
Borrowings	-	3,274	7,147	55,007	23,230	88,658
Lease liabilities	169	59	840	2,173	12,556	15,797
Other liabilities	14,546	32,743	92	2,735	4,570	54,686
Total financial liabilities	**1,166,889**	**383,036**	**156,067**	**164,131**	**772,422**	**2,642,545**
Net statement of financial exposure	**(494,851)**	**(168,034)**	**13,597**	**252,898**	**578,786**	**182,396**

Notes (continued)

4. Financial risk management (continued)

(b) Liquidity risk (continued)

Company At 31 December 2023	**Up to 1 month Kshs million**	**1 - 3 months Kshs million**	**3 - 12 months Kshs million**	**1 - 5 years Kshs million**	**Over 5 years Kshs million**	**Total Kshs million**
Cash and balances with Central Banks	5,613	-	-	-	-	5,613
Loans and advances to Banks	-	-	-	-	-	-
Balances due from related companies	-	-	-	-	-	-
Financial assets at FVTPL	-	-	-	-	-	-
Financial Assets at amortised cost	-	-	-	-	-	-
Financial Assets at fair value through OCI	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Investment in equity	-	-	-	-	-	-
Investment property	-	-	-	-	-	-
Other assets	89	-	-	-	-	89
Total financial assets	**5,702**	**-**	**-**	**-**	**-**	**5,702**
Deposits from banks	-	-	4,686	-	-	4,686
Deposits from customers	-	-	-	-	-	-
Retirement benefits obligation	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-
Other liabilities	630	-	-	-	-	630
Total financial liabilities	**630**	**-**	**4,686**	**-**	**-**	**5,316**
Net statement of financial exposure	**5,072**	**-**	**(4,686)**	**-**	**-**	**386**

Notes (continued)

4. Financial risk management (continued)

(b) Liquidity risk (continued)

Group **At 31 December 2022**	**Up to 1 month** **Kshs million**	**1 - 3 months** **Kshs million**	**3 - 12 months** **Kshs million**	**1 - 5 years** **Kshs million**	**Over 5 years** **Kshs million**	**Total** **Kshs million**
Cash and balances with Central Banks	80,177	4,651	1,626	1,710	2,967	91,131
Loans and advances to Banks	159,190	2,200	-	-	1,344	162,734
Financial assets at FVTPL	419	4,708	4,526	3,520	4,231	17,404
Financial Assets at amortised cost	2,748	1,660	3,933	24,102	132,079	164,522
Financial Assets at fair value through OCI	113,672	10,662	47,130	73,920	95,459	340,843
Loans and advances to customers	397,829	71,160	165,899	526,184	498,213	1,659,285
Investment in equity	54	-	28	27	1,077	1,186
Investment property	-	-	-	-	12,601	12,601
Other assets	26,862	20,146	3,757	-	-	50,765
Total financial assets	780,951	115,187	226,899	629,463	747,971	**2,500,471**
Deposits from banks	86,746	4,624	545	873	-	92,788
Deposits from customers	1,297,396	136,168	227,708	105,775	631,602	2,398,649
Retirement benefits obligation	-	-	-	-	1,007	1,007
Borrowings	-	3,119	3,111	20,655	36,725	63,610
Lease liabilities	696	923	2,918	7,181	5,837	17,555
Other liabilities	34,152	380	9,714	-	1,164	45,410
Total financial liabilities	**1,418,990**	**145,214**	**243,996**	**134,484**	**676,335**	**2,619,019**
Net statement of financial exposure	**(638,039)**	**(30,027)**	**(17,097)**	**494,979**	**71,636**	**(118,548)**

The amounts in the tables above have been compiled based on undiscounted cash flows, which include estimated interest payments.

Notes (continued)

4. Financial risk management (continued)

(b) Liquidity risk (continued)

Company **At 31 December 2022**	**Up to 1 month** **Kshs million**	**1 - 3 months** **Kshs million**	**3 - 12 months** **Kshs million**	**1 - 5 years** **Kshs million**	**Over 5 years** **Kshs million**	**Total** **Kshs million**
Cash and balances with Central Banks	712	-	-	-	-	712
Loans and advances to Banks	-	-	-	-	-	-
Balances due from related companies	-	-	-	-	-	-
Financial assets at FVTPL	-	-	-	-	-	-
Financial Assets at amortised cost	-	-	-	-	-	-
Financial Assets at fair value through OCI	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Investment in equity	-	-	-	-	-	-
Investment property	-	-	-	-	-	-
Other assets	62	-	-	-	-	62
Total financial assets	774	-	-	-	-	**774**
Deposits from banks	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-
Balances due from related companies	2,360					2,360
Retirement benefits obligation	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-
Other liabilities	766	-	-	-	-	766
Due to related parties	-	-	-	-	-	-
Total financial liabilities	**3,126**	**-**	**-**	**-**	**-**	**3,126**
Net statement of financial exposure	**(2,352)**	**-**	**-**	**-**	**-**	**(2,352)**

Notes (continued)

4. Financial risk management (continued)

(c) Market risk

(i) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily, and hedging strategies used to ensure that positions are maintained within the established limits. Foreign exchange risk arises from our non-trading asset and liability positions, denominated in currencies other than the functional currency of the respective entity.

Transactions in foreign currency are recorded at the rate in effect at the date of the transaction. The Group translates monetary assets and liabilities denominated in foreign currencies at the rate of exchange in effect at the reporting date. The Group records all gains or losses on changes in currency exchange rates in profit or loss.

The table below summarizes the foreign currency exposure as at 31 December 2023 and 31 December 2023:

	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
Monetary assets i foreign currencies	824,499	269,825	-	-
Monetary liabilities in foreign currencies	(806,120)	(279,705)	-	-
Net foreign currency exposure at the end of the year	**18,379**	**(9,880)**	-	-

31 December 2023:	**USD Kshs million**	**GBP Kshs million**	**EURO Kshs million**	**OTHER Kshs million**	**Total Kshs million**
ASSETS					
Cash and bank balances	45,378	1,071	5,388	770	**52,607**
Loans and advances to customers	588,137	4	5,007	347	**593,495**
Placements with Banks	139,150	361	2,282	169	**141,962**
Other assets	36,017	8	335	75	**36,435**
At 31 December 2023	**808,682**	**1,444**	**13,012**	**1,361**	**824,499**
LIABILITIES					
Deposits from banks	12,544	16	769	24	**13,353**
Deposits from customers	669,025	1,254	13,452	910	**684,641**
Other liabilities	106,481	42	1,434	169	**108,126**
At 31 December 2023	**788,050**	**1,312**	**15,655**	**1,103**	**806,120**
Net statement of financial position exposure	**20,632**	**132**	**(2,643)**	**258**	**18,379**

Notes (continued)

4. Financial risk management (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

31 December 2022:	USD Kshs million	GBP Kshs million	EURO Kshs million	OTHER Kshs million	Total Kshs million
ASSETS					
Cash and bank balances	41,910	495	2,690	2,083	**47,178**
Loans and advances to customers	7,254	182	1,437	186	**9,059**
Placements with banks	185,175	53	1,465	664	**187,357**
Other assets	23,785	7	348	14	**24,154**
At 31 December 2022	**258,124**	**737**	**5,940**	**2,947**	**267,748**
LIABILITIES					
Deposits from banks	8,474	6	52	1,060	**9,592**
Deposits from customers	180,329	699	5,236	10,336	**196,600**
Other liabilities	63,610	-	-	-	**63,610**
At 31 December 2022	**252,413**	**705**	**5,288**	**11,396**	**269,802**
Net statement of financial position exposure	**5,711**	**32**	**652**	**-8,449**	**(2,054)**

The following table demonstrates the sensitivity to a reasonably possible change in the below mentioned exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

The group manages the currency risk through cross currency swaps, deposit mobilization and also long-term borrowings and onward lending to customers to mitigate any gaps. The Group also uses the interbank borrowings or lending to manage the currency gap position.

Notes (continued)

4. Financial risk management (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

	At 31 December 2023			**At 31 December 2022**		
KShs 'Million'	**Currency Carrying Amount Kshs million**	**10% Depreciation**	**10% Appreciation**	**Currency Carrying Amount**	**10% Depreciation**	**10% Appreciation**
Assets						
USD	808,681	(80,868)	80,868	258,124	(25,812)	25,812
GBP	1,444	(144)	144	737	(74)	74
Euro	13,013	(1,301)	1,301	5,940	(594)	594
Other	1,361	(136)	136	2,947	(295)	295
		(82,449)	**82,449**		**(26,775)**	**26,775**
Liabilities						
USD	788,051	78,805	(78,805)	257,801	25,780	(25,780)
GBP	1,312	131	(131)	727	73	(73)
Euro	15,655	1,566	(1,566)	5,486	549	(549)
Others	1,103	110	(110)	13,565	1,356	(1,356)
		80,612	**(80,612)**		**27,758**	**(27,758)**
Increase/(decrease)		(1,837)	1,837		983	(983)
Tax charge at 30%		(551)	551		295	(295)
Effect on net profit		(1,286)	1,286		688	(688)
As a percentage of net profit		-3.43%	3.43%		1.68%	-1.68%

At 31 December 2023 if the shilling had weakened/strengthened by 10% against the major trading currencies, with all other variables held constant, net profit would have been KShs 1,286 million (2022: KShs 688 million) lower/higher.

Notes (continued)

4. Financial risk management (continued)

(c) Market risk (Continued)

(ii) Interest rate risk - continued Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may decrease because of such changes but may increase losses in the event that unexpected movement arises.
The Group closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position. Assets and Liabilities Committee monitors compliance with the set interest rate gaps.
To manage interest rate risk the group has a robust Assets and Liabilities Committee which reviews daily cash management, monitors daily liquidity limits of loan to deposit ratio and interbank borrowing. The Group also performs stress testing of liquid assets and has a contingency funding plan to ensure severe liquidity gaps are adequately managed. The table below shows interest rate sensitivity position of the Group at 31 December based on the earlier of maturity or re-pricing dates. Items not recognized on the statement of financial position do not pose any significant interest rate risk to the Group.

Group	**Weighted interest rates**	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
At 31 December 2023:		**Kshs million**	**Kshs million**	**Kshs million**	**Kshs million**	**Kshs million**	**Kshs million**	**Kshs million**
Cash and balances with Central Banks	0.00%	-	10,535	-	1,514	-	124,062	136,111
Loans and advances to banks	1.70%	239,747	4,738	-	-	-	125,914	370,399
Financial assets at FVOCI	11.30%	11,563	36,455	6,281	30,941	112,824	2,211	200,275
Financial assets at FVTPL	11.30%	-	-	-	-	64	5	69
Investment in equity	0.00%	-	-	-	-	-	1,580	1,580
Other assets and prepayments	0.00%	8,442	-	-	-	-	57,301	65,743
Loans and advances to customers	10.50%	148,623	182,407	143,187	309,452	307,997	4,278	1,095,944
Investment property	0.00%	-	-	-	-	19,025	166	19,191
Financial assets at armotised cost	11.30%	2,465	7,841	11,263	26,221	146,631	2,438	196,859
Total assets		**410,840**	**241,976**	**160,731**	**368,128**	**586,541**	**317,955**	**2,086,171**
Deposits from banks	4.70%	73,092	350	6,172	-	7,222	973	87,809
Deposits from customers	2.60%	897,736	310,866	143,688	115,159	32,287	191,172	1,690,908
Lease liability	0.00%	-	25	744	1,129	2,352	1,547	5,797
Payables and accrued expenses	0.00%	1,507	32,134	-	639	-	20,134	54,414
Borrowings	3.90%	785	3,261	7,147	62,557	14,078	830	88,658
Total liabilities and equity		**973,120**	**346,636**	**157,751**	**179,484**	**55,939**	**214,656**	**1,927,586**
Interest rate sensitivity gap		**(562,280)**	**(104,660)**	**2,980**	**188,644**	**530,602**	**103,299**	**158,585**

Notes (continued)
4. Financial risk management (continued)

(c) Market risk (Continued)

(ii) Interest rate risk (continued)

Group **At 31 December 2022:**	**Weighted interest rates**	**Up to 1 month Kshs million**	**1 - 3 months Kshs million**	**3 - 12 months Kshs million**	**1 - 5 years Kshs million**	**Over 5 years Kshs million**	**Non-interest bearing Kshs million**	**Total Kshs million**
Cash and balances with Central Banks	0.00%	-	-	-	-	-	91,131	91,131
Loans and advances to banks	1.70%	32,533	2,109	-	-	1,344	126,918	162,904
Financial assets at FVOCI	11.30%	64	805	4,670	28,273	78,591	1,096	113,499
Financial assets at FVTPL	11.30%	400	4,494	4,347	3,386	4,039	739	17,405
Investment in equity	0.00%	630	-	-	-	-	447	1,077
Other assets and prepayments	0.00%	6,453	19,127	3,725	-	-	21,358	50,663
Loans and advances to customers	10.50%	81,554	99,359	61,491	237,332	319,821	63,711	863,268
Financial assets at armotised cost	11.30%	1,940	1,611	3,933	24,035	132,079	924	164,522
Total assets		**123,574**	**127,505**	**78,166**	**293,026**	**535,874**	**306,324**	**1,464,469**
Deposits from banks	4.70%	78,942	2,239	2,729	833	13,246	(5,202)	92,787
Deposits from customers	2.60%	606,543	59,902	75,931	4,858	114,317	273,866	1,135,417
Lease liability	0.00%	45	34	240	803	3,581	1,170	5,873
Payables and accrued expenses	0.00%	14,617	199	9,714	-	-	12,965	37,495
Borrowings	3.90%	4	96	1,166	16,229	45,739	375	63,609
Total liabilities and equity		**700,151**	**62,470**	**89,780**	**22,723**	**176,883**	**283,174**	**1,335,181**
Interest rate sensitivity gap		**(576,577)**	**65,035**	**(11,614)**	**270,303**	**358,991**	**23,150**	**129,288**

Notes (continued)

4. Financial risk management (continued)

(c) Market risk (Continued)

(ii) Interest rate risk (continued)

Company	**Weighted interest**	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
At 31 December 2023:	**rates**	**Kshs million**	**Kshs million**	**Kshs million**	**Kshs million**	**Kshs million**	**Kshs million**	**Kshs million**
Cash and balances with Central Banks	0.00%	-	-	-	-	-	5,613	5,613
Loans and advances to banks	0.00%	-	-	-	-	-	-	-
Financial assets at FVOCI	0.00%	-	-	-	-	-	-	-
Amounts due from related companies	0.00%	-	-	-	-	-	-	-
Other assets and prepayments	0.00%	-	-	-	-	-	89	89
Total assets		**-**	**-**	**-**	**-**	**-**	**5,702**	**5,702**
Deposits from banks	0.00%	-	-	4,686	-	-	-	4,686
Deposits from customers	0.00%	-	-	-	-	-	-	-
Payables to related parties	0.00%	-	-	-	-	-	-	-
Payables and accrued expenses	0.00%	-	-	-	-	-	630	630
Borrowings	0.00%	-	-	-	-	-	-	-
Total liabilities and equity		**-**	**-**	**4,686**	**-**	**-**	**630**	**5,316**
Interest rate sensitivity gap		**-**	**-**	**(4,686)**	**-**	**-**	**5,072**	**386**

Notes (continued)

4. Financial risk management (continued)

(c) Market risk (Continued)

(ii) Interest rate risk (continued)

Company At 31 December 2022:	**Weighted interest rates**	**Up to 1 month Kshs million**	**1 - 3 months Kshs million**	**3 - 12 months Kshs million**	**1 - 5 years Kshs million**	**Over 5 years Kshs million**	**Non-interest bearing Kshs million**	**Total Kshs million**
Cash and balances with Central Banks	0.00%	-	-	-	-	-	712	712
Loans and advances to banks	0.00%	-	-	-	-	-	-	-
Financial assets at FVOCI	0.00%	-	-	-	-	-	-	-
Amounts due from related companies	0.00%	-	-	-	-	-	-	-
Other assets and prepayments	0.00%	-	-	-	-	-	62	62
Total assets		**-**	**-**	**-**	**-**	**-**	**774**	**774**
Deposits from banks	0.00%	-	-	-	-	-	-	-
Deposits from customers	0.00%	-	-	-	-	-	-	-
Payables to related parties	0.00%	-	-	-	-	-	2,270	2,270
Payables and accrued expenses	0.00%	-	-	-	-	-	766	766
Borrowings	0.00%	-	-	-	-	-	-	-
Total liabilities and equity		**-**	**-**	**-**	**-**	**-**	**3,036**	**3,036**
Interest rate sensitivity gap		**-**	**-**	**-**	**-**	**-**	**(2,262)**	**(2,262)**

Notes (continued)

4. Financial risk management (continued)

(c) Market risk (Continued)

(ii) Interest rate risk (continued

An analysis of the Group's sensitivity to an increase or decrease in market interest rates assuming no asymmetrical movement in yield curves and a constant financial position is as follows on profit or loss (balances in KShs millions):

	2023			2022		
	Carrying amount	1% Increase	1% Decrease	Carrying amount	1% Increase	1% Decrease
Cash and balances with Central Banks	105,120	1,051	(1,051)	91,131	911	(911)
Loans and advances to banks	401,391	4,014	(4,014)	163,632	1,636	(1,636)
Financial assets at FVTPL	69	1	(1)	-	-	-
Financial assets at FVOCI	200,275	2,003	(2,003)	113,498	1,135	(1,135)
Investment property	12,766	128	(128)	12,601	126	(126)
Other assets and prepayments	65,654	657	(657)	39,142	391	(391)
Loans and advances to customers (Net)	1,090,950	10,910	(10,910)	863,626	8,636	(8,636)
Financial assets at armotised cost	196,859	1,969	(1,969)	164,522	1,645	(1,645)
	2,073,084	20,733	(20,733)	1,448,152	14,480	(14,480)
LIABILITIES & EQUITY						
Deposits from banks	87,809	(878)	878	92,787	(928)	928
Deposits from customers	1,690,908	(16,909)	16,909	1,135,444	(11,354)	11,354
Retirement benefits obligations	-	-	-	1,007	(10)	10
Other liabilities and accrued expenses	52,466	(525)	525	44,989	(450)	450
Borrowings	88,658	(887)	887	63,610	(636)	636
	1,919,841	(19,199)	19,199	1,337,837	(13,378)	13,378
Net interest income Increase/(decrease)		1,534	(1,534)		1,102	(1,102)
Tax Charge @ 30%		(460)	460		(331)	331
Impact on profit after tax		**1,074**	**(1,074)**		**771**	**(771)**

Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Bank Treasury is responsible for the development of detailed risk management policies and for day-to-day implementation of those policies.

(iii) Price risk

The Group is exposed to equity securities price risk because of investments in Kenya Mortgage Refinance Company shares. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity and debt securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Directors.

Notes (continued)

4. Financial risk management (continued)

(c) Market risk (Continued)

Value at risk

The Group applies a 'value at risk' (VAR) methodology to its trading and non-trading portfolios to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. Interest rate risk in the non-trading book is also measured using interest rate repricing gap analysis.
VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Group might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VAR estimate.

The VAR model assumes a certain 'holding period' until positions can be closed (10 days). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. The Group's assessment of past movements is based on data for the past five years. The Group applies these historical changes in rates, prices, indices, etc. directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The VaR is calculated as per the below standard parameters:

- Confidence level - 99%
- Holding Period – 10 Days
- Historical Data – 5 years

The VaR is reported to the Board as part of the ICAAP process. The VAR limits will be established for all trading portfolio operations and allocated to Business Units. Average daily VAR for the KCB Kenya was KShs 1,365 million (2022: KShs 1,225 million). The quality of the VAR model is continuously monitored by back testing the VAR results.

12 months to 31 Dec 2023

Stress VaR KShs million	**Average**	**High**	**Low**
Interest rate risk	1,355	1,506	1,195
Foreign exchange risk	43	176	5
Total VaR	1,365	1,509	1,192

12 months to 31 Dec 2022

KShs million	**Average**	**High**	**Low**
Interest rate risk	1,222	1,327	1,147
Foreign exchange risk	34	149	5
Total VaR	1,225	1,326	1,166

Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Treasury and Risk Functions include risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions.

The results of the stress tests are reviewed by senior management in each business unit and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

Notes (continued)

4. Financial risk management (continued)

(d) Off balance sheet items

i. Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that it commits to extend credit to customers and other facilities (Note 45) are summarised in the table below.

ii. Off balance sheet financial instruments

Off balance sheet letters of credit and guarantees (Note 46) are also included in the table below, based on the earliest contractual maturity date.

iii. Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases.

iv. Capital commitments

Capital commitments for the acquisition of buildings and equipment (Note 45) are summarised in the table below:

At 31 December 2023	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
	KShs million	**KShs million**	**KShs million**	**KShs million**
Loan commitments	21,330	111,989	1,134	134,453
Off balance sheet financial instruments	505,052	7,707	89	512,848
Operating lease commitments	4,162	3,153	1,282	8,597
Capital commitments	869	-	-	869
Total	**531,413**	**122,849**	**2,505**	**656,767**
At 31 December 2022				
Loan commitments	31,049	-	-	31,049
Off balance sheet financial instruments	72,798	21,614	606	95,018
Operating lease commitments	1,150	5,268	3,403	9,821
Capital commitments	2,682	-	-	2,682
Total	**107,679**	**26,882**	**4,009**	**138,570**

Notes (continued)

5. Fair value of financial instruments

(a) Accounting classification and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount				Fair value			
	FVOCI	FVTPL	At amortised cost	Total carrying amount	Level 1	Level 2	Level 3	Total
2023 Group	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million
Assets								
Financial assets								
Cash and bank balances	-	-	136,111	136,111	93,538	42,573	-	136,111
Due from other banks	-	-	370,399	370,399	-	370,399	-	370,399
Financial assets at amortized cost	-	-	196,859	196,859	196,859	-	-	196,859
Due from related companies								
Financial assets at FVOCI	-	-	200,275	200,275	200,275	-	-	200,275
Loans and advances to customers at amortised cost	-	-	1,094,289	1,094,289	-	1,094,289	-	1,094,289
Loans and advances to customers at FVTPL			1,655	1,655	1,655	-	-	1,655
Other assets and prepayments	-	-	65,653	65,653	-	65,653	-	65,653
Total financial assets	**-**	**-**	**2,065,241**	**2,065,241**	**492,327**	**1,572,914**	**-**	**2,065,241**
Due to other banks	-	-	87,809	87,809	-	87,809	-	87,809
Deposits from customers	-	-	1,690,908	1,690,908	-	1,690,908	-	1,690,908
Payables and accrued expenses	-	-	54,414	54,414	-	54,414	-	54,414
Long term debt	-	-	88,658	88,658	-	88,658	-	88,658
Total financial liabilities			**1,921,789**	**1,921,789**	**-**	**1,921,789**	**-**	**1,921,789**

Notes (continued)

5. Fair value of financial instruments (continued)

(a) Accounting classification and fair values (continued)

	Carrying amount				Fair value			
2022 Group	**FVTOCI** Kshs million	**FVTPL** Kshs million	**At amortised cost** Kshs million	**Total** Kshs million	**Level 1** Kshs million	**Level 2** Kshs million	**Level 3** Kshs million	**Total** Kshs million
Assets								
Financial assets								
Cash and balances with Central Banks	-	-	91,131	91,131	91,131	-	-	91,131
Due from other banks	-	-	163,632	163,632	-	163,632	-	163,632
Financial assets at amortized cost	-	-	164,522	164,522	164,522	-	-	164,522
Financial assets at FVOCI	113,498	-	-	113,498	113,498	-	-	113,498
Loans and advances to customers at amortised cost	-	-	860,680	860,680	-	860,680	-	860,680
Loans and advances to customers at FVTPL		1,482	-	1,482	1,482	-	-	1,482
Other assets and prepayments	-	-	49,738	49,738	-	49,738	-	49,738
Investment in equity	-	-	1,077	1,077	-	1,077	-	1,077
Total financial assets	**113,498**	**1,482**	**1,330,780**	**1,445,760**	**370,633**	**1,075,127**	**-**	**1,445,760**
Liabilities								
Due to other banks	-	-	92,787	92,787	-	92,787	-	92,787
Deposits from customers	-	-	1,135,417	1,135,417	-	1,135,417	-	1,135,417
Payables and accrued expenses	-	-	44,989	44,989	-	44,989	-	44,989
Long term debt	-	-	69,483	69,483	-	69,483	-	69,483
Total financial liabilities	**-**	**-**	**1,342,676**	**1,342,676**	**-**	**1,342,676**	**-**	**1,342,676**

Notes (continued)

5. Fair value of financial instruments (continued)

(a) Accounting classification and fair values (continued)

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

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

Investment securities with observable market prices including equity securities are fair valued using that information. Investment securities that do not have observable market data are fair valued either using discounted cash flow method or quoted market prices for securities with similar yield characteristics. The table above includes KShs 295 million (2022: KShs 295 million) of securities in both carrying amount and fair value columns that were measured at cost and for which disclosure at fair value was not provided because their fair value was not considered to be reliably measurable.

Loans and advances to customers are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances are on floating rates and re-price within 12 months, hence their fair value approximates their carrying amounts.

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. Estimated fair value of fixed interest-bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar maturities and interest rates. A substantial proportion of deposits mature within 12 months and hence the fair value approximates their carrying amounts.

Cash and bank balances are measured at amortized cost and their fair value approximates their carrying amount.

Notes (continued)

Fair value of financial instruments (continued)

(b) Valuation hierarchy

The table below presents the Group's assets that are measured at fair value the end of the year.

Financial Assets Financial assets	Fair value as at 31 December 2023 KShs million	31 December 2022 KShs million	Fair value hierarchy	Valuation technique (s) and key inputs	Significant unobservable inputs
- At FVTPL	69	5,462	Level 1	Quoted bid prices in an active market	N/A
- AT FVOCI	200,275	139,704	Level 1	Quoted bid prices in an active market	N/A
Loans and advances at FVPL	1,655	3,662	Level 2	Valuation based on future operations of an entity	Discounted cashflows
Total assets	**201,999**	148,828			

The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

6. Management of capital

Regulatory capital – Kenya

The Central Bank of Kenya sets and monitors capital requirements for all banks.

The objective of the Central Bank of Kenya is to ensure that a bank maintains a level of capital which:

- is adequate to protect its depositors and creditors;
- is commensurate with the risks associated with its activities and profile;
- promotes public confidence in the Group.

In implementing current capital requirements, the Central Bank of Kenya requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets. Banks are expected to assess the Credit risk, Market risk and the Operational risk of the risk weighted assets to derive the ratios. The Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

The Central Bank of Kenya requires a bank to maintain at all times:

- hold the minimum level of regulatory capital of KShs 1 billion.
- Total risk weighted assets, plus risk weighted off- balance sheet assets at above the required minimum of 10.5%.
- Maintain a ratio of total regulatory capital; to
  - a core capital of not less than 8% of its total deposit liabilities
  - a total capital of not less than 14.5% of its total risk weighted assets, plus risk weighted off-balance sheet items.

Notes (continued)

6. Management of capital (continued)

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

- Tier 1 capital. This includes ordinary share capital, share premium, retained earnings and after deduction of investment in subsidiaries, goodwill, other intangible assets and other regulatory adjustments relating to items that are included in equity which are treated differently for capital adequacy purposes.
- Tier 2 capital. This includes 25% of revaluation reserves of property, subordinated debt not exceeding 50% of core capital, collective impairment allowances and any other approved reserves.

The regulatory capital position for the Group's banking subsidiaries was as follows:

Regulatory capital - KCB Bank Kenya Limited

	2023 Kshs million	2022 Kshs million
Core Capital (Tier 1):		
Ordinary share capital	53,986	53,986
Retained earnings	77,019	42,463
Deferred tax	(16,673)	(10,485)
Total Core Capital	**114,332**	**85,964**
Supplementary Capital (Tier 2):	39,256	34,786
Total regulatory capital	**153,588**	**120,750**
Risk weighted assets	**971,784**	**792,142**
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**15.8%**	**15.2%**
Total tier 1 capital expressed as a percentage of total risk-weighted assets	**11.8%**	**10.9%**
The minimum capital ratios, as per the Central Bank of Kenya regulations, are as follows:		
Total core capital expressed as a percentage of total risk-weighted assets	**14.5%**	**14.5%**
Total tier 1 capital expressed as a percentage of total risk-weighted assets	**10.5%**	**10.5%**

Notes (continued)

6. Management of capital (continued)

Regulatory capital – Tanzania

KCB Bank Tanzania had the following capital adequacy ratios:-

	2023	2022
Core capital (Tier 1)		
Tier I (Minimum required 10%)	16.3%	15.9%
Tier I + Tier II (Minimum required 12%)	17.1%	17.2%

Regulatory capital –Trust Merchant Bank

TMB DRCongo had the following capital adequacy ratios:-

	2023	2022
Core capital (Tier 1)		
Tier I (Minimum required 7.5%)	19.0%	9.6%
Tier I + Tier II (Minimum required 10%)	11.5%	12.1%

Regulatory capital – South Sudan

KCB Bank South Sudan had the following capital adequacy ratios:-

	2023	2022
Core capital (Tier 1)		
Tier I (Minimum required 8%)	19.0%	32.0%
Tier I + Tier II (Minimum required 12%)	21.0%	38.0%

Regulatory capital – Burundi

KCB Bank Burundi had the following capital adequacy ratios:-

	2023	2022
Core capital (Tier 1)		
Tier I (Minimum required 10%)	22.4%	26.3%
Tier I + Tier II (Minimum required 12%)	30.9%	35.0%

Regulatory capital – Uganda

KCB Bank Uganda had the following capital adequacy ratios:-

	2023	2022
Core capital (Tier 1)		
Tier I (Minimum required 10%)	18.1%	18.2%
Tier I + Tier II (Minimum required 12%)	18.9%	18.9%

Regulatory capital –BPR Bank Rwanda Plc

BPR Bank Rwanda had the following capital adequacy ratios:-

	2023	2022
Core capital (Tier 1)		
Tier I (Minimum required 10%)	20.1%	19.3%
Tier I + Tier II (Minimum required 12%)	20.1%	19.4%

Regulatory capital – National Bank of Kenya Limited

National Bank of Kenya had the following capital adequacy ratios:

	2023	2022
Core capital (Tier 1)		
Tier I (Minimum required 10.5%)	7.5%	12.2%
Tier I + Tier II (Minimum required 14.5%)	12.5%	13.5%

Notes (continued)

6. Management of capital (continued)

KCB Group Plc will ensure that the capital adequacy of its subsidiaries meet the requirements of home and host regulators as required by cap 488 of the Banking Act.

The Group was in compliance with all statutory capital requirements as at end of the year with the exception of National Bank of Kenya Limited which was in breach on both Tier I and Tier II capital requirements as indicated in the table above. In addition, the Group has an Internal Capital Adequacy Assessment Process (ICAAP) policy to guide in determining its capital planning and formulating its risk appetite process. Overall, the purpose of the ICAAP document is to provide an informative description of the methodology and procedures that the Group uses to assess and mitigate its risks and to make sure that adequate capital is kept to support its risks beyond the core minimum requirements.

It delineates the process through which the Group assesses the extent to which it holds sufficient capital in order to duly support its business activities. Specifically, through the ICAAP, the Group assesses its forecast capital supply and demand relative to its regulatory and internal capital targets, under various scenarios. The Group's capital plan is defined every year during the budgeting and strategic planning exercise while financial year risk appetite limits are set by the Board. Exposures are monitored on a quarterly basis against those limits and reported to the Board Credit and Risk Committees. Stress testing is a risk management exercise that forms an integral part of the ICAAP. As part of the Group's ICAAP, forecasts are made over a five-year horizon, taking into account the Basel Pillar I and II stresses.

The ICAAP provides for an assessment of the Pillar I risk types (i.e., credit, operational, market risks) and Pillar II risk types (i.e. concentration of risk, liquidity risk, interest rate risk, strategic risks). These assessments are conducted with a view to understanding the sensitivity of the key assumptions of the capital plan to the realisation of possible stress scenarios and in order to evaluate how the Group can continue to maintain adequate capital under such scenarios. The overriding aim of the stress testing framework for the Group is to ensure that risk management exercises are firmly embedded in the organisation's overall governance culture. This helps to bolster the observance of regulatory requirements with regard to risk management, while contributing to the competitive positioning of the Group.

Notes (continued)

7. Operating segments

An operating segment is a section of the Group that focus on distinct business activities and is regularly reviewed by the management in terms of performance and resource allocation. The Group's management identify the specific segments based on the internal reporting periodically to the executive committee which is the chief operating decision maker (CODM). The segmentation is dependent on the customer's turnover and thus the current segments include corporate, retail, Treasury, and mortgages. The focus of these segments is as detailed below: -

Retail banking – incorporating banking services such as customer current accounts, savings, and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgages-based lending. Corporate banking – incorporating banking services such as current accounts, fixed deposits, overdrafts, loans, and other credit facilities both in local and foreign currencies for corporate customers.
Treasury – operates the Group's funds management activities.
Other Group operations comprise of trade finance and forex business. The Group also participates in investments in Treasury Bills and Bonds from the Central Banks.
The Group does not have any one major customer contributing to more than 10% in revenue, loans, or deposits. There have been no changes in the reportable segments in the year, nor any intersegment transfers.

The table below analyses the breakdown of segmental assets, liabilities, income, and expenses.

Profit or Loss For the year ended 31 December 2023	Corporate banking Kshs million	Retail banking Kshs million	Treasury Kshs million	Mortgages Kshs million	Other Kshs million	Total Kshs million
Interest income	46,998	72,381	52,045	8,436	1,693	181,553
Interest expense	(27,458)	(13,220)	(8,176)	(1,063)	(10,924)	(60,841)
Net interest income	19,540	59,161	43,869	7,373	(9,231)	120,712
Net fees and commission income	6,376	9,801	1,152	492	9,245	27,066
Other income	211	2,158	4,258	-	5,084	11,711
Depreciation and amortization	(345)	(1,549)	(5)	-	(7,430)	(9,329)
Impairment	(16,358)	(7,975)	(722)	(101)	(2,731)	(27,887)
Operating expenses	(8,091)	(27,411)	(1,612)	-	(36,706)	(73,820)
Profit before monetary items	1,333	34,185	46,940	7,764	(41,769)	48,453
Loss on monetary items	-	-	-	-	-	-
Profit before tax	1,333	34,185	46,940	7,764	(41,769)	48,453
Tax expense	(302)	(7,754)	(10,648)	(1,761)	9,474	(10,991)
Profit after tax	**1,031**	**26,431**	**36,292**	**6,003**	**(32,295)**	**37,462**
Financial position						
Short term funds	7,491	59,548	629,280	-	207,394	903,713
Loans and advances	479,870	421,300	8,417	88,627	96,075	1,094,289
Other assets and prepayments	-	1,605	21,052	1,957	148,258	172,872
Total assets	**487,361**	**482,453**	**658,749**	**90,584**	**451,727**	**2,170,874**
Customer deposits	880,521	488,304	8,127	33,721	280,235	1,690,908
Borrowed funds					88,658	88,658
Payables and accrued expenses	1,324	-	87,809	-	66,615	155,748
Shareholders' funds	-	-	-	-	**235,560**	**235,560**
Total liabilities and shareholders' funds	**881,845**	**488,304**	**95,936**	**33,721**	**671,068**	**2,170,874**

Notes (continued)

7. Operating segments (continued)

Profit or Loss For the year ended 31 December 2022	**Corporate banking Kshs million**	**Retail banking Kshs million**	**Treasury Kshs million**	**Mortgages Kshs million**	**Other Kshs million**	**Total Kshs million**
Interest income	46,384	50,042	35,577	-	-	132,003
Interest expense	(12,413)	(12,800)	(2,597)	-	(3,288)	(31,098)
Net interest income	33,971	37,242	32,980	-	(3,288)	100,905
Net fees and commission income	4,592	7,847	-	-	-	12,439
Other income	-	3,806	11,062	-	45	14,913
Depreciation and amortization	-	-	-	-	(6,615)	(6,615)
Impairment	(7,690)	(4,141)	-	-	-	(11,831)
Operating expenses	(5,733)	(26,016)	(286)	-	(20,716)	(52,751)
Profit before monetary items	25,140	18,738	43,756	-	(30,574)	57,060
Loss on monetary items	-	-	-	-	271	271
Profit before tax	25,140	18,738	43,756	-	(30,303)	57,331
Tax expense	(7,233)	(5,391)	(12,589)	-	8,719	(16,494)
Profit after tax	**17,907**	**13,347**	**31,167**	**-**	**(21,584)**	**40,837**
Financial position						
Short term funds	-	29,290	458,327	-	62,569	550,186
Loans and advances	406,823	456,445	-	-	-	863,268
Other assets and prepayments	-	-	-	-	140,576	140,576
Total assets	**406,823**	**485,735**	**458,327**	**-**	**203,145**	**1,554,030**
Customer deposits	558,988	576,429	-	-	-	1,135,417
Borrowed funds	-	-	-	-	63,610	63,610
Payables and accrued expenses	-	-	-	-	148,726	148,726
Shareholders' funds	-	-	-	-	206,277	206,277
Total liabilities and shareholders' funds	**558,988**	**576,429**	**-**	**-**	**418,613**	**1,554,030**

Major Customers

The Group does not have major customers contributing to 10% or more of the Group's income.

Geographical information

Six of the Group companies, KCB Bank Tanzania Limited, KCB South Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Limited, KCB Bank Burundi Limited and Banque Populaire du Rwanda operate outside the domestic financial market. The following table analyses the regional segments in which the group operates.

Notes (continued)

7. Operating segments (continued)
Geographical information
Income Statement

For the year ended 31 December 2023	Kenya KShs million	Tanzania KShs million	South Sudan KShs million	Uganda KShs million	Rwanda KShs million	Burundi KShs million	DRC KShs million	Elimination KShs million	Total KShs million
Interest income	138,265	7,195	1,074	4,835	10,788	1,144	18,252	-	181,553
Interest expense	(50,532)	(2,725)	(229)	(1,640)	(2,951)	(110)	(2,654)	-	(60,841)
Net interest income	87,733	4,470	845	3,195	7,837	1,034	15,598		120,712
Net fees and commission income	14,560	973	1,058	583	1,277	656	7,959		27,066
Other income	6,907	655	769	619	572	(25)	2,214		11,711
Impairment	(24,952)	(335)	5	(690)	56	(9)	(1,962)		(27,887)
Fair value gain									-
Depreciation and amortization	(4,028)	(318)	(69)	(315)	(1,258)	(95)	(3,246)		(9,329)
Operating expenses	(49,705)	(2,401)	(938)	(2,078)	(4,361)	(636)	(13,701)		(73,820)
Profit before tax and monetary loss	30,515	3,044	1,670	1,314	4,123	925	6,862		48,453
Loss /(Gain)on monetary position	-	-	-	-	-	-	-		-
Profit before income tax	30,515	3,044	1,670	1,314	4,123	925	6,862		48,453
Tax	(7,265)	(866)	(500)	(173)	(1,312)	(286)	(589)		(10,991)
Profit after tax	23,250	2,178	1,170	1,141	2,811	639	6,273		37,462
For the year ended 31 December 2022									
Interest income	111,563	4,977	371	2,713	9,269	877	2,233	-	132,003
Interest expense	(26,097)	(1,776)	(51)	(852)	(2,378)	(79)	135	-	(31,098)
Net interest income	85,466	3,201	320	1,861	6,891	798	2,368	-	100,905
Net fees and commission income	9,474	339	597	466	1,039	588	(64)	-	12,439
Other income	12,527	474	758	524	464	147	19	-	14,913
Impairment	(10,174)	(4	(50)	(188)	(76)	14	(870)	-	(11,831)
Depreciation and amortization	(4,595)	(275)	(50)	(260)	(1,321)	(101)	(13)	-	(6,615)
Operating expenses	(42,776)	(1,683)	(604)	(1,609)	(3,952)	(622)	(1,505)	-	(52,751)
Profit before tax and monetary loss	49,922	1,569	971	794	3,045	824	(65)	-	57,060
Loss /(Gain)on monetary position	-	-	271	-	-	-	-	-	271
Profit before income tax	49,922	1,569	1,242	794	3,045	824	(65)	-	57,331
Tax	(14,485)	(482)	(304)	249	(1,022)	(224)	(226)	-	(16,494)
Profit after tax	35,437	1,087	938	1,043	2,023	600	(291)		40,837

Notes (continued)

7. Operating segments (continued)

Geographical information
Statement of financial position

For the year ended 31 December 2023	**Kenya**	**Tanzania**	**South Sudan**	**Uganda**	**Rwanda**	**Burundi**	**DRC**	**Elimination**	**Total**
	KShs million	**KShs million**	**KShs million**	**KShs million**	**KShs million**	**KShs million**	**KShs million**	**KShs million**	**KShs million**
Cash and short term funds	624,612	29,817	13,708	17,071	29,345	10,142	179,018	-	903,713
Loans and advances	818,417	55,560	9,694	31,800	74,058	7,065	97,695	-	1,094,289
Other assets	162,505	3,218	811	2,638	1,031	623	2,046	-	172,872
Total assets	1,605,534	88,595	24,213	51,509	104,434	17,830	278,759	-	2,170,874
Customer deposits	1,238,760	52,902	15,605	40,704	75,500	12,719	254,718	-	1,690,908
Borrowed funds	76,063	4,795	-	129	7,671	-	-	-	88,658
Other liabilities	101,006	22,829	8,253	3,311	9,193	2,396	8,760	-	155,748
Shareholders' funds	189,705	8,069	355	7,365	12,070	2,715	15,281	-	235,560
Total liabilities and shareholders' funds	1,605,534	88,595	24,213	51,509	104,434	17,830	278,759	-	2,170,874
For the year ended 31 December 2022									
Cash and short term funds	332,613	22,002	12,195	13,685	28,743	10,289	138,132	(7,473)	550,186
Loans and advances	685,081	34,767	4,465	20,080	54,978	5,502	58,512	(117)	863,268
Other assets	211,712	1,658	(383)	1,514	8,801	419	13,581	(96,726)	140,576
Total assets	1,229,406	58,427	16,277	35,279	92,522	16,210	210,225	(104,316)	1,554,030
Customer deposits	805,131	36,093	11,975	27,286	55,573	12,296	187,179	(116)	1,135,417
Borrowed funds	55,191	1,120	-	310	6,989	-	-	-	63,610
Other liabilities	114,575	13,672	1,429	1,919	15,588	633	4,248	(3,338)	148,726
Shareholders' funds	254,509	7,542	2,873	5,764	14,372	3,281	18,798	(100,862)	206,277
Total liabilities and shareholders' funds	1,229,406	58,427	16,277	35,279	92,522	16,210	210,225	(104,316)	1,554,030

Notes (continued)

8. Interest income and interest expense

		GROUP		COMPANY	
		2023	2022	2023	2022
		Kshs million	Kshs million	Kshs million	Kshs million
(a)	**Interest income on financial assets using the effective interest rate method**				
	Interest on loans and advances	135,011	98,426	34	19
	Financial instruments at FVOCI	42,615	32,749	-	-
	Other investments at armotised cost	71	112	-	-
	Interest on placements and bank balances	3,856	716	218	-
		181,553	**132,003**	**252**	**19**
(b)	**Interest expense on financial liabilities using the effective interest rate method**				
	Interest on deposits	41,824	25,214	-	-
	Interest on borrowed funds	18,546	5,415	218	-
	Interest on lease liabilities	471	469	-	-
		60,841	31,098	218	-
	NET INTEREST INCOME	**120,712**	**100,905**	**34**	**19**

9. Fees and commission income/expense

		GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
(a)	**Fees and commission income**				
	Retail and corporate fee income	4,581	3,504	-	-
	Commission income	27,347	11,754	-	-
		31,928	**15,258**	**-**	**-**
(b)	Fees and commission expense	(4,862)	(2,819)	-	-
NET FEES AND COMMISSION		**27,066**	**12,439**	**-**	**-**

The elements of retail and corporate fee income are recognised over time while the commission income is mostly recognised at a point in time.

10. Net foreign exchange gain

	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Trading Income	4,713	6,631	-	-
Revaluation (Loss)/ Gain	2,256	4,448	31	14
	6,969	11,079	31	14

11. (a) Dividend income

	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Dividend income	-	-	1,091	32,824

11. (b) Other operating income

	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Rental income	342	344	7	12
Profit on disposal of property and equipment	35	(7)	-	-
Income on disposal of government securities	-	-	-	-
Miscellaneous income	4,221	3,452	1,322	1,400
	4,598	**3,789**	**1,329**	**1,412**

Miscellaneous income includes Risk Margin Fees, Gain or loss on sale of financial assets at fair value through other comprehensive income and other income.

The group leases out its investment properties to tenants under operating leases with rentals payable monthly or quarterly. The lease income is recognised on a straight line over the lease term.

Notes (continued)

12. Allowances for expected credit losses

	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
Losses on financial assets				
Non-performing loans and advances (Stage 3)	27,233	40,699	-	-
Performing loans and advances (Stage 1 and 2)	5,357	(2,095)	-	-
Bad debts recovered in the year	(5,175)	(28,304)	-	-
	27,415	10,300	-	-

13. Net losses on financial assets at fair value through profit or loss

	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
Fair value loss on loan notes	472	1,531	-	-

14. Staff costs

	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Salaries and wages	29,357	24,738	795	1,194
Medical expenses	2,339	1,713	28	3
Pension costs – defined benefit scheme	562	443	-	-
Pension costs – defined contribution scheme	1,555	1,505	9	13
Other employee expenses	4,656	2,023	75	-
	38,469	**30,422**	**907**	**1,210**

*Other employee costs relate to staff insurance, health and safety programs, recognition schemes, restructuring costs, recruitment, and other incidental costs.

The average number of employees of the Group during the year ended 31 December 2023 was 9,611 (2022: 9,194). The average number of employees of the Company during the year ended 31 December 2023 was 10 (2022: 10)

15. Depreciation and amortisation

	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
Depreciation of property and equipment (Note 29)	4,261	2,835	18	16
Amortisation of intangible assets (Note 32)	4,196	2,625	2	2
Amortisation of bank premises (Note 30)	872	1,155	-	-
	9,329	**6,615**	**20**	**18**

Notes (continued)

16. Other operating expenses

	GROUP		COMPANY	
	2023 KShs million	**2022 KShs Million**	**2023 KShs Million**	**2022 KShs million**
Depositor's protection fund premiums	1,493	1,339	-	-
Marketing, events and sponsorship	2,876	2,594	83	36
Project expenses,Repairs & Maintenance, rent and utilities	1,761	1,720	24	19
Equipment costs,Maintenance, repairs and leases	3,497	2,294	29	26
Communication costs-Data line,Telephone	1,288	988	2	3
Professional and outsourced service costs	7,454	3,947	258	359
Software related costs	5,635	4,051	1	1
Other costs	11,347	5,396	359	475
	35,351	**22,329**	**756**	**919**

The Group also leases computer equipment and point of sale machines for between one to three years. These leases are short-term or low valued and the Group has elected not to recognize the right-of-use assets and liabilities as exempted by the standard.

Other costs related to utilities payments, card services and corporate social responsibility.

17. Profit before income tax

	GROUP		COMPANY	
	2023 Kshs million	**2022 Kshs million**	**2023 Kshs million**	**2022 Kshs million**
Profit before tax is arrived at after charging/(crediting):				
Depreciation	4,261	2,842	-	16
Amortisation of intangible assets	4,196	2,530	12	2
Amortisation of right of use asset	872	1,155	-	-
Directors' emoluments –salary emoluments	345	568	54	514
Auditors remuneration	166	89	28	6
Profit/(loss) on disposal of property and equipment	35	(7)	-	-

Notes (continued)

18. Gain/ (loss) on monetary position

Gain / Loss in monetary position is as a result of the South Sudan economy being declared a hyperinflationary economy in 2016 and has historically prepared hyperinflationary accounts. In the current year, South Sudan has ceased to be hyperinflationary and hence no hyperinflationary accounting has been applied and thus there is no gain/ loss on monetary assets in the current year.

2023	**1 January 2023**	**Net change in monetary items**	**31 December 2023**
	Kshs million	**Kshs million**	**Kshs million**
Monetary Items			
Cash and balances with Bank of South Sudan	11,297	(11,297)	-
Investment in government securities	-	-	-
Placements and balances with other banking institutions	859	(859)	-
Amounts due from related companies	70	(70)	-
Loans and advances to customers	4,465	(4,465)	-
Other assets	1,251	(1,251)	-
Customer deposits	(11,975)	11,975	-
Balances due to other banks	-	-	-
Tax payable	48	(48)	-
Other liabilities	(3,433)	3,433	-
Amounts due to related companies	(324)	324	-
Net monetary assets	2,258	(2,258)	-
Expressed in purchasing power at 31 Dec 2022	(1,987)	1,987	-
Loss on net monetary position	**271**	**(271)**	**-**

2022			
Cash and balances with Bank of South Sudan	11,217	80	11,297
Investment in government securities	-	-	-
Placements and balances with other banking institutions	983	(124)	859
Amounts due from related companies	58	12	70
Loans and advances to customers	1,640	2,825	4,465
Other assets	27	1,224	1,251
Customer deposits	(8,079)	(3,896)	(11,975)
Balances due to other banks	(3)	3	-
Tax payable	(72)	120	48
Other liabilities	(622)	(2,811)	(3,433)
Amounts due to related companies	(2,592)	2,268	(324)
Net monetary assets	2,557	(299)	2,258
Expressed in purchasing power at 31 Dec 2021	(2,341)	354	(1,987)
Loss on net monetary position	**216**	**55**	**271**

Notes (continued)

19. Current income tax

GROUP	Kshs million	Kshs million
Income tax expense:		
Charge to profit or loss for the year	19,310	19,057
Under-provision in prior years	162	(413)
	19,472	18,644
Deferred tax (credit) / charge:		
Deferred tax (credit)/charge (Note 34)	(8,014)	(2,570)
Over-provision in prior years	(467)	525
	(8,481)	(2,045)
Hyperinflation adjustment	-	(105)
	10,991	16,494
Reconciliation of effective tax:		
Accounting profit before tax	48,452	57,331
Tax calculated using applicable tax rates based on respective income tax laws	14,536	17,199
Effects of non-taxable income	(3,515)	(3,737)
Effects of non-allowable expenses	276	3,638
Effect of change in tax rate	-	(613)
Effect of Hyperinflation adjustment	-	(105)
Prior year under provision in current tax	161	(413)
Prior year over provison in deferred tax	(467)	525
	10,991	16,494

(b)Statement of financial position-Group	**2023**	**2022**
	Kshs million	**Kshs million**
At start of year	336	(5,644)
Current income tax expense	(15,151)	(19,057)
On acquisition of subsidiary	330	-
Prior year under/(over) provision	(1,600)	413
Total income taxes paid	12,747	23,968
Effects of hyperinflation adjustment	-	656
At end of year	**(3,668)**	**336**
Comprising:		
Tax recoverable	-	336
Tax payable	(3,668)	-
	(3,668)	**336**

Notes (continued)

19. Current income tax (continued)

COMPANY	2023 Kshs million	2022 Kshs million
Income tax expense:		
Charge to profit or loss for the year	(4)	34
Prior year tax under provision	2	-
	(2)	34
Deferred income tax (credit) / charge:		
Deferred income tax (credit)/charge (Note 29)	36	(115)
Deferred income tax charge - Prior year overprovision	-	(1)
	36	(118)
	34	(82)
Reconciliation of effective tax:		
Accounting profit before income tax	802	8,182
Tax calculated using applicable tax rates based on respective income tax laws	241	2,455
Effects of non-taxable income	119	(2,665)
Effects of non-allowable expenses	(327)	128
Effects of change in tax rate	-	-
Prior year under provision in current tax	2	-
	35	(82)

Statement of financial position-Company	2023 Kshs million	2022 Kshs million
Company		
At start of year	90	93
Prior year under/(over) provision	-	-
Tax paid during the year	24	32
Tax charge for the year	-	(35)
At end of year	**114**	**90**
Comprising:		
Tax recoverable	-	-
Tax payable	(114)	(90)
	(114)	(90)

Notes (continued)

20. Earnings per share

Basic and diluted earnings per share is calculated on the profit attributable to ordinary shareholders of KShs 37,462 million (2022 – 40, 837 million) and on the weighted average number of ordinary shares during the year of 3,213 million (2022 – 3,213 million shares).

	GROUP		COMPANY	
	2023	2022	2023	2022
	Kshs million	Kshs million	Kshs million	Kshs million
Basic earnings per share	**11.66**	**12.71**	**0.24**	**10.02**
Diluted earnings per share	**11.66**	**12.71**	**0.24**	**10.02**

21. Cash and bank balances

Cash on hand	66,143	29,290	927	712
Balances with Central Banks :				
Cash reserve ratio	53,783	45,156	-	-
Other current accounts	16,185	16,685	-	-
	136,111	**91,131**	**927**	**712**

Cash held with Central Banks represent cash ratio and other non-interest earning current accounts and is based on the value of deposits as adjusted for Central Banks' requirements. Mandatory cash reserve ratio is not available for use in the Group's day-to-day operations.

Notes (continued)

22. Loans and advances to other banks

	GROUP		COMPANY	
	2023	2022	2023	2022
	Kshs million	Kshs million	Kshs million	Kshs million
Balances in nostro accounts	157,876	27,930	-	-
Placements with other banks	212,523	135,702	-	-
	370,399	**163,632**	**-**	**-**

The Group participates in the inter-bank market for the generation of revenue. Regularly, the counterparties are assessed for creditworthiness in line with the Group credit policies. The weighted average effective interest rate on balances due from other banks at 31 December 2023 was 1.9% (2022 :5.3%).

23. Financial assets at fair value through other comprehensive income

	GROUP		COMPANY	
	2023	2022	2023	2022
	Kshs million	Kshs million	Kshs million	Kshs million
Quoted investments	24	-	-	-
Corporate bonds	2,116	2,120	-	-
Treasury bonds	198,135	111,378	-	-
	200,275	**113,498**	**-**	**-**

24. Investments accounted for using equity method

At start of year	1,077	402	-	-
Receivables from equity investment	359	630	-	-
Share of profit from associate	144	45	-	-
	1,580	**1,077**	**-**	**-**

The Bank has a 20% shareholding in Kenya Mortgage Finance Company. Summarized financial information for the associate have not been presented as the associate is immaterial to the Group. The additions include share held by a subsidiary in SWIFT.

25. Other assets and prepayments

	GROUP		COMPANY	
	2023	2022	2023	2022
	Kshs million	Kshs million	Kshs million	Kshs million
Other receivables	48,354	34,068	-	60
Prepayments	10,941	11,623	89	2
Items in the course of collection	6,358	4,047	-	-
	65,653	**49,738**	**89**	**62**

Other receivables are current and non-interest bearing and are generally between 30 to 90 days terms.

The items in the course of collection consists of items in transit to/from other banks through the Central Banks of various countries' clearing system. These items generally clear by end of the next business day.

Notes (continued)

26. Loans and advances to customers

The summary of loans and advances is as follows:

	2023 Kshs million	2022 Kshs million
Loans and advances at amortised cost	1,094,289	860,680
Loans and advances at fair value	1,655	2,588
	1,095,944	**863,268**

Loans and advances to customers at amortised cost

	2023			2022		
CORPORATE	**Gross Kshs million**	**Credit loss allowance Kshs million**	**Carrying Amount Kshs million**	**Gross Kshs million**	**Credit loss allowance Kshs million**	**Carrying Amount Kshs million**
Mortgage	77,201	(5,793)	71,408	38,327	(1,847)	36,480
Overdrafts	82,932	(4,464)	78,468	26,431	(985)	25,446
Term loans	546,850	(68,390)	478,460	447,592	(50,086)	397,506
	706,983	**(78,647)**	**628,336**	**512,350**	**(52,918)**	**459,432**
RETAIL						
Mortgage	92,410	(1,472)	90,938	65,221	(1,492)	63,729
Overdrafts	18,649	(1,837)	16,812	19,737	(2,699)	17,038
Term loans	384,849	(26,646)	358,203	334,857	(14,376)	320,481
	495,908	**(29,955)**	**465,953**	**419,815**	**(18,567)**	**401,248**
	1,202,891	**(108,602)**	**1,094,289**	**932,165**	**(71,485)**	**860,680**

2023	**Corporate Kshs million**	**Mortgages Kshs million**	**Retail Kshs million**	**Total Kshs million**
Credit loss allowance				
Stage 3				
At start of year	53,927	712	4,054	58,693
Allowance made during the year (Note 12)	14,676	538	12,019	27,233
Allowance recovered/un required during the year (Note 12)	3,085	(6,059)	(2,202)	(5,176)
Write downs/write offs during the year	1,871	7,905	113	9,889
Effects of movements in exchange rates (Note 12)	-	-	(35)	(35)
At end of year	**73,559**	**3,096**	**13,949**	**90,604**
Stage 1 & 2				
At start of year	5,988	(671)	7,286	12,603
Allowance made during the year (Note 12)	3,125	1,419	813	5,357
Effects of movements in exchanges rates (Note 12)	(22)	(10)	70	38
At end of year	**9,091**	**738**	**8,169**	**17,998**
Total	**82,650**	**3,834**	**22,118**	**108,602**

Notes (continued)

26. Loans and advances to customers (continued)

2022	**Corporate Kshs million**	**Mortgages Kshs million**	**Retail Kshs million**	**Total Kshs million**
Credit loss allowance				
Stage 3				
At start of year	40,242	2,844	11,773	54,859
Allowance made during the year (Note 12)	32,028	781	7,890	40,699
Allowance recovered/un required during the year (Note 12)	(13,260)	(2,225)	(12,819)	(28,304)
Write downs/write offs during the year	(5083)	(688)	(2,790)	(8,561)
At end of year	**53,927**	**712**	**4,054**	**58,693**
Stage 1 & 2				
At start of year	7,458	641	6,788	14,887
Allowance made during the year (Note 12)	(1,470)	(1,312)	687	(2,095)
Effects of movements in exchanges rates (Note 12)	-	-	-	-
At end of year	**5,988**	**(671)**	**7,475**	**12,792**
Total	**59,915**	**41**	**11,529**	**71,485**

Maturity analysis of gross loans and advances to customers:	**2023 KShs million**	**2022 KShs million**
Maturing as follows:		
Within 1 month	202,472	81,736
After 1 month but within 3 months	67,370	31,495
After 3 months, but within 1 year	156,126	145,963
After 1 year, but within 5 years	363,305	239,670
After 5 years	413,618	433,301
	1,202,891	**932,165**
Sectorial analysis of gross loans and advances to customers:		
Private sector and individuals	1,158,690	824,930
Government and parastatals	44,201	107,235
	1,202,891	**932,165**

The weighted average effective interest rate on loans and advances as at 31 December 2023 was 11.2% (2022 – 10.7%).

Loan and advances at fair value through profit or loss

	2023 KShs million	**2022 KShs million**
Gross carrying value	3,137	5,400
Fair value loss provision	(1,482)	(2,812)
At end of year	1,655	2,588

Loans and advances at fair value relate to loan notes issued to a Special Purpose Entity (SPE) formed as part of a restructuring arrangement between lender banks and Kenya Airways Plc in 2016. Under the terms of the restructuring, the amounts owing to the banks were transferred to the SPE, which in exchange was allocated equity shares of Kenya Airways Plc. Principally, the banks will recover the amounts due through the sale of Kenya Airways shares. The banks receive a fixed interest income on the amounts due at a rate that is largely below the market rates.

Notes (continued)

27. Financial assets at amortised cost

	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
Maturing as follows:				
Within 1 month	1,198	2,018	-	-
After 1 month, but within 3 months	5,712	1,663	-	-
After 3 months, but within 6 months	8,559	1,416	-	-
After 6 months, but within 12 months	3,177	2,682	-	-
After 1 year, but within 5 years	26,243	24,127	-	-
After 5 years	151,970	132,616	-	-
	196,859	**164,522**	-	-

Treasury bonds are debt securities issued by the Government of the Republic of Kenya, Government of Uganda, Government of the Republic of Rwanda, United Republic of Tanzania, Government of the Republic of Burundi and Government of DRC. The bills and bonds are categorized as amounts held at amortized cost and carried at amortized cost. The weighted average effective interest rates on Government securities as at 31 December 2023 was 8.1% (31 December 2022: 8.1%).

28. Financial assets at fair value through profit or loss (FVTPL)

	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
Government treasury bills and bonds	69	17,403	-	-
At end of year	69	17,403	-	-

Notes (continued)

29. Property and equipment

a) GROUP

As at 31 December 2023:	Freehold and Lease Premises	Leasehold Improvements	Motor Vehicle, Furniture and Equipment	Total
COST	**Kshs million**	**Kshs million**	**Kshs million**	**Kshs million**
At 1 January 2023	18,163	4,183	42,646	64,992
Reclassification	(1,376)	210	623	(543)
Additions	1,381	191	154	1,726
Translation differences	(21)	-	(39)	(60)
Hyperinflationary charge	-	-	-	-
At end of year	18,147	4,584	43,384	66,115
DEPRECIATION				
At 1 January 2023	4,505	3,414	30,455	38,374
Charge for the year	808	228	3,225	4,261
Disposals	(54)	-	(744)	(798)
Reclassification	(58)	150	276	368
Translation differences				
At end of year	5,201	3,792	33,212	42,205
CARRYING AMOUNT	**12,946**	**792**	**10,172**	**23,910**
As at 31 December 2022:				
COST				
At 1 January 2022	7,453	4,412	33,278	45,143
Reclassification	728	-	268	996
Additions	82	60	3,871	4,013
Acquisitions	10,705	-	5,324	16,029
Disposals	(1,142)	(4)	(335)	(1,481)
Translation differences	337	(210)	285	412
Hyperinflationary charge	-	(75)	(45)	(120)
At end of year	18,163	4,183	42,646	64,992
DEPRECIATION				
At 1 January 2022	1,631	3,380	23,318	28,329
Charge for the year	79	107	2,649	2,835
Acquisitions	2,593	-	3,158	5,751
Disposals	(87)	-	(327)	(414)
Reclassification	170	-	1,618	1,788
Translation differences	119	(46)	43	116
Hyperinflationary charge	-	(27)	(4)	(31)
At end of year	4,505	3,414	30,455	38,374
CARRYING AMOUNT	**13,658**	**769**	**12,191**	**26,618**

Included in property and equipment are fully depreciated assets amounting to KShs 29,987 million (2022 – KShs 27,798 million) which would have a notional depreciation of KShs 5,407 million (2022 – KShs 4,955 million).

Notes (continued)

29. Property and equipment (continued)

b) COMPANY

As at 31 December 2023:	**Freehold and Lease Premises**	**Leasehold Improvements**	**Motor Vehicle, Furniture and Equipment**	**Total**
COST	**Kshs million**	**Kshs million**	**Kshs million**	**Kshs million**
At 1 January 2023	585	-	319	904
Additions	-	-	33	31
At end of year	585	-	352	937
DEPRECIATION				
At 1 January 2023	38	-	39	77
Charge for the year	3	-	16	19
At end of year	41	-	55	96
CARRYING AMOUNT	**544**	**-**	**297**	**841**
As at 31 December 2022:				
COST				
At 1 January 2022	585	-	90	675
Additions	-	-	229	229
At end of year	585	-	319	904
DEPRECIATION				
At 1 January 2022	35	-	27	62
Charge for the year	3	-	12	15
At end of year	38	-	39	77
CARRYING AMOUNT	**547**	**-**	**280**	**828**

Included in property and equipment are fully depreciated motor vehicle, furniture and equipment amounting to 77.6 million (2022 – KShs 61.5 million) which would have a notional depreciation of KShs 8.8 million (2022– KShs 5.3 million).

30. Investment property

	GROUP		**COMPANY**	
	2023	**2022**	**2023**	**2022**
	Kshs million	**Kshs million**	**Kshs million**	**Kshs million**
At start of year	12,601	10,667	-	-
Additions in year	-	2,373	-	-
Disposals in the year	-	(439)	-	-
Reclassification	6,590	-	-	-
At end of year	19,191	12,601	-	-

Investment properties are classified under level 2 fair value hierarchy.

Notes (continued)

31. Right-of-use assets

	2023			2022		
	Leasehold premises	Leased motor vehicles	Totals	Leasehold premises	Leased motor vehicles	Totals
	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million
COST						
At 1 January 2023	8,092	1,259	9,351	7,898	1,259	9,157
Acquisition of a subsidiary	-	-	-	-	-	-
Additions	1,110	-	1,110	150	-	150
Disposals	(331)	-	(331)	(970)	-	(970)
Reclassification/internal transfers	-	-	-	955	-	955
Hyperinflationary charge	-	-	-	(26)	-	(26)
Translation difference	317	-	317	86	-	86
At end of year	**9,188**	**1,259**	**10,447**	**8,093**	**1,259**	**9,352**
AMORTISATION						
At 1 January 2023	(5,312)	(806)	(6,118)	(3,866)	(774)	(4,640)
Disposals	282	-	282	402	-	402
Charge for the year	(647)	(225)	(872)	(1,123)	(32)	(1,155)
Acquisition of a subsidiary	-	-	-	-	-	-
Reclassification/internal transfers	-	-	-	(669)	-	(669)
Hyperinflationary charge	-	-	-	7	-	7
Translation difference	(644)	-	(644)	(64)	-	(64)
At end of year	**(6,321)**	**(1,031)**	**(7,352)**	**(5,313)**	**(806)**	**(6,119)**
CARRYING AMOUNT						
At end of year	**2,867**	**228**	**3,095**	**2,780**	**453**	**3,233**

Right-of-use assets relate to leased premises and motor vehicles.

Notes (continued)

32. Intangible assets

At 31 December 2023: **Cost**	**Computer software**	**Brand KShs million**	**Customer relationships KShs million**	**Customer deposits KShs million**	**Goodwill KShs million**	**Total KShs million**
At 1 January 2023	26,393	1,322	2,150	8,120	3,070	41,055
Additions	2,400	-	-	-	-	2,400
Disposal	(183)	-	-	-	-	(183)
Transfers	438	-	-	-	-	438
Translation differences	(170)	-	-	-	-	(170)
At end of year	28,878	1,322	2,150	8,120	3,070	43,540
Amortisation						
At 1 January 2023	19,188	101	63	488	-	19,840
Disposals	(152)	-	-	-	-	(152)
Charge for the year	1,877	265	430	1,624	-	4,196
Transfers	(117)	-	-	-	-	(117)
Translation differences	449	-	-	-	-	449
At end of year	21,245	366	493	2,112	-	**24,216**
Carrying amount	7,633	956	1,657	6,008	3,070	**19,324**

At 31 December 2022: **Cost**	**Computer software**	**Brand KShs million**	**Customer relationships KShs million**	**Customer deposits KShs million**	**Goodwill KShs million**	**Total KShs million**
At 1 January 2022	21,214	339	211	1,631	-	23,395
Additions	1,309	-	-	-	-	1,309
Disposal	(8)	-	-	-	-	(8)
Acquisition	2,752	983	1,939	6,489	3,070	15,233
Reclassifications	1,065	-	-	-	-	1,065
Translation differences	61	-	-	-	-	61
At end of year	26,393	1,322	2,150	8,120	3,070	41,055
Amortisation						-
At 1 January 2022	16,383	-	-	-	-	16,383
Acquisitions	779	-	-	-	-	779
Disposals	(8)	-	-	-	-	(8)
Charge for the year	1,973	101	63	488	-	2,625
Translation differences	61	-	-	-	-	61
At end of year	19,188	101	63	488	-	19,840
Carrying amount	7,205	1,221	2,087	7,632	3,070	21,215

Notes (continued)

32. Intangible assets (continued)

	COMPANY	
	2023	**2022**
	Kshs million	**Kshs million**
Cost		
At 1 January 2023	10	10
Additions	-	-
Disposal	-	-
Acquisition	-	-
Reclassification/internal transfers	-	-
Translation differences	-	-
At end of year	10	10
Amortisation		
At 1 January 2023	7	5
Acquisitions		
Disposals	-	-
Reclassification/internal transfers		-
Amortization for the year	2	2
Translation differences	-	-
At end of year	**9**	**7**
CARRYING AMOUNT		
At 1 January 2023	**1**	**3**

Notes (continued)

32. Intangible assets (continued)

Significant judgements in the estimation of intangible assets

Intangible assets arising from business combinations include brands, customer relationships, and core deposits. The key considerations applied in the estimation of the fair value of these intangibles is as follows:

Brand

A brand is defined as a way in which a company or organization is perceived by its customers. The fair value of the brand was determined using the relief-from-royalty (RFR) method. The RFR method values the intangible assets by reference to the amount the acquirer would pay in an arm's length transaction i.e., it estimates the value for an asset based on the cost savings realised through ownership compared to paying licensing fees. The royalty rate is applied to the estimated income stream attributable to the brand to determine the amount of royalty savings, which is then discounted at the applicable discount rate to arrive at the estimated fair value. The brand value will be amortised to the profit or loss account over a period of five years.

Customer Relationships

The value of a customer relationship is mainly derived from the expectation of repeat business from the customer as well as the opportunity to cross sell various products and services to them. In the case of a bank, this value depends on the ability of the bank to provide banking products that meet customers' needs now and in the future. When determining if a customer relationship asset exists, the following elements are considered:

- Availability of factual information about the customers that is important and useful to the bank; and
- Expectations by the bank of repeat patronage from its customers based on the customers' banking activity. This expectation translates into the future revenue and cash flow to the bank.

The customer contracts were acquired as part of the business acquisition of TMB. They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line basis based on the timing of the projected cash flows of the contracts over their estimated useful lives.

The fair value of customer relationships was valued using MEEM approach. The MEEM approach measures the excess after tax cashflows attributable to the intangible asset being valued after providing the appropriate returns on other identifiable assets. The customer relationship value will be amortised to the profit or loss over a period of five years.

Core Deposits

The premise underlying the core deposit intangible asset is that a rational buyer would be willing to pay a premium to obtain a group of core deposit accounts that are less expensive than the buyer's marginal cost of funds. It relates to a stable deposit base with no contractual maturity that provides a low-cost source of funding (versus the alternative interbank funding market).

A core deposit intangible asset arises on acquisition when the acquired bank has a stable deposit base composed of funds associated with long-term customer relationships. The stable deposit base provides a low-cost source of funding as banks can utilize the core deposit base as a low-cost source of finance. The alternative to replace these established, low-cost deposit accounts in a timely manner, would be to utilize higher cost funds at current market rates.

The fair value of the core deposit intangible was determined using the cost savings method. It's calculated as the after-tax present values of; (i) net cost of funding and (ii) net service fees earned on deposits. Net cost of funding is the difference between interest expense on acquired low cost saving and demand deposit and cost of alternative funding over the useful life of the deposit. Amortisation for this asset is for five years.

Notes (continued)

32. Intangible assets (continued)

Goodwill

Goodwill represents the excess of purchase consideration over the fair value of identifiable assets arising from the acquisition of Trust Merchant Bank Limited (the Cash Generating Unit) on 1 December 2023. The goodwill was tested for impairment at 31 December 2023 using the value in use approach. The key assumptions used in the determination of the recoverable amount are as follows:

(a) Future cash flows

The forecast periods adopted reflect a set of cash flows, based on management judgement and expected market conditions, that could be sustainably generated over such a period. An eight-year forecast period was used as a basis for future USD cash flows, extrapolated in perpetuity to reflect the long-term plans for the entity, using a terminal growth rate of 5%. These values are sensitive to the cash flow projections for the periods for which detailed forecasts are not available and to the assumptions regarding the long-term sustainability of the cash flows beyond the forecast period.

(b) Discount rate

The net cash flows were discounted using the country specific pre-tax weighted average cost of capital (WACC) of 27.3%. The weighted average cost of capital was derived from using the US Govt dollar denominated 20 year bond adjusted for the country risk premium for the Democratic republic of Congo.

Based on the above assumptions, the recoverable value of the Cash Generating Unit (CGU) exceeded its carrying value inclusive of the goodwill on acquisition at 31 December 2023. Therefore, the Group has not recognised an impairment charge on the goodwill.

Impact of possible changes in key assumptions

Assuming a change in discounting rate by 1%, the recoverable value of the CGU would decreases/increases by Kes 29.5 million respectively.

Assuming a change in the terminal growth rates by 1%, the recoverable value of the CGU would decreases/increases by Kes 12 million respectively.

The recoverable value of the CGU would still exceed its carrying amount inclusive of goodwill in both scenarios,

Notes (continued)

33. Investment in subsidiary undertakings

(a) Investment in subsidiaries

Investments in subsidiaries: Incorporated in Kenya: Company	Kshs million Activity	Beneficial ownership %	2023 KShs' million	2022 KShs' million
KCB Bank Kenya Limited	Commercial Banking	100	53,986	53,986
Kenya Commercial Finance Company Limited	Dormant	100	150	150
KCB Investment Banking	Investment	100	400	400
Savings & Loan Kenya Limited	Dormant	100	500	500
KCB Foundation	Corporate Social Responsibility	100	-	-
National Bank of Kenya	Commercial Banking	100	14,646	11,191
Kenya Commercial Bank Nominees Limited	Nominee Shareholders	100	-	-
Kencom House Limited	Property Ownership & Management	100	749	749
KCB Asset Management	Asset Management	100	10	-
KCB Insurance Agency Limited	Insurance Brokerage	100	-	-
Incorporated outside Kenya:				
KCB Bank Tanzania Limited	Commercial Banking	100	3,546	3,546
KCB Bank South Sudan Limited	Commercial Banking	100	2,355	2,355
Trust Merchant Bank, SA	Commercial Banking	85	25,111	25,111
KCB Bank Burundi Limited	Commercial Banking	100	936	936
KCB Bank Uganda Limited	Commercial banking	100	4,340	4,340
BPR Rwanda	Commercial banking	87	7,551	7,551
Investment in associates:				
United Finance Limited*	Dormant	45	-	-
			114,280	114,270

Movement in investment in subsidiaries		
Balance at 1 January	114,270	87,964
Acquisition of Trust Merchant Bank SA	-	25,111
Transfer from NBK Group (Natrust)	10	-
Additional equity injection into KCB Uganda	-	1,195
Total additional investment in subsidiaries	10	26,306
Balance at 31 December	114,280	114,270

During the year, Natrust, a subsidiary of National Bank of Kenya, was transferred to the group through share exchange at nominal value. It was subsequently renamed KCB Asset Management. KCB Capital Limited was also renamed KCB Investment Bank. The significant risks for the various subsidiaries have been documented under Note 4.

Notes (continued)

33. Investment in subsidiary undertakings (continued)

(a) Investment in subsidiaries (continued)

Significant restrictions

The Group does not have any significant restrictions on its ability to access or use its assets to settle its liabilities other than those resulting from the regulatory frameworks in the respective operating jurisdictions of the subsidiaries.

The regulatory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other certain ratios in the operations. The Group and its subsidiaries were compliant with all regulatory requirements at the year end except National Bank of Kenya which was non-compliant with regulatory ratios as indicated under note 6.

34. Deferred income tax

	Balance at 1 January	Recognised in profit or loss	Recognised in Other comprehensive income	Balance at 31 December
2023	**Kshs million**	**Kshs million**	**Kshs million**	**Kshs million**
Property and equipment	1,406	(106)	-	1,300
Provisions for expected credit losses	22,076	4,340	-	26,416
Tax losses carried forward	1,616	1,428	-	3,044
Financial assets at FVOCI	420	-	2992	3,412
Post-employment benefits obligation	240	-	(25)	215
Impairment losses on financial instruments	-	618	-	618
	25,758	**6,280**	**2,967**	**35,005**
2022				
Property and equipment	1,188	218	-	1,406
Provisions for expected credit losses	20,869	1,207	-	22,076
Tax losses carried forward	996	620	-	1,616
Financial assets at FVOCI	(846)	-	1,266	420
Post-employment benefits obligation	175	-	65	240
	22,382	**2,045**	**1,331**	**25,758**

Notes (continued)

34. Deferred income tax

	Balance at 1 January	Recognised in profit or loss	Recognised in Other comprehensive income	Balance at 31 December
	Kshs million	Kshs million	Kshs million	Kshs million
COMPANY				
2023				
Property and equipment	5	2	-	7
Provisions for expected credit losses	1	-	-	1
Tax losses carried forward	108	(29)	-	79
Unrealised gains and losses	(4)	(5)	-	(9)
	110	**(32)**	**-**	**78**
2022				
Property and equipment	3	2	-	5
Provisions for expected credit losses	1	-	-	1
Tax losses carried forward	(7)	115	-	108
Unrealised gains and losses	(4)	-	-	(4)
	(7)	**117**	**-**	**110**

Other deductible differences mainly relate to allowances for expected credit losses on loans and advances which are only deductible for tax purposes when the credit losses meet the income tax law guidelines for tax deductibility which include among others credit write-off, total inability to collect etc.

The directors believe that, based on the historical performance, the Group, will have future taxable profits against which these assets can be utilised and meet the income tax law conditions for deductibility.

Notes (continued)

35. Deposits from banks

	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
Deposits and balances from other banks	87,809	85,431	4,686	-
Payable within 1 month	66,083	86,722	-	-
Payable after 1 month, but within 3 months	7,957	4,624	-	-
Payable after 3 months, but within 1 year	13,769	1,441	-	-
	87,809	**92,787**	**-**	**-**

The weighted average effective interest rates on interest bearing deposits from banks as at 31 December 2023 was 5.3% (2022 – 4.9%).

36. Deposits from customers

	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
(a) From government and parastatals:				
Maturing as follows:				
Within 1 month	346,119	209,959	-	-
After 1 month, but within 3 months	15,914	13,478	-	-
After 3 months, but within 1 year	1,858	5,783	-	-
After 1 year, but within 5 years	202	192,451	-	-
	364,093	**421,671**	**-**	**-**
(b) From private sector and individuals				
Maturing as follows:				
Within 1 month	925,749	457,136	-	-
After 1 month, but within 3 months	159,445	69,158	-	-
After 3 months, but within 1 year	145,378	78,394	-	-
After 1 year, but within 5 years	96,244	109,058	-	-
	1,326,816	**713,746**	**-**	**-**
Total other customer deposits				
Maturing as follows:				
Within 1 month	1,259,101	667,095	-	-
After 1 month, but within 3 months	177,672	82,636	-	-
After 3 months, but within 1 year	160,987	84,177	-	-
After 1 year, but within 5 years	93,148	301,509	-	-
	1,690,908	**1,135,417**	**-**	**-**

The weighted average effective interest rates on interest bearing customer deposits at 31 December 2023 was 3.0% (2022– 2.6%).

At 31 December 2023, customers deposits included Kshs 344 billion (2022: Kshs Nil) held as security for off-balance sheet structured fuel importation financing arrangements as shown in Note 46.

Notes (continued)

37. Payables and accrued expenses

	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
Accruals	10,956	9,679	557	665
Other payables	34,858	27,089	68	101
Bills payable	8,600	8,221	-	-
	54,414	**44,989**	**625**	**766**

Bills payable consist of cheques issued by the Group to customers and suppliers that were not presented for payment at the end of the year. Other payables include items in suspense across the branch network.

38. Lease liabilities

	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
At start of year	5873	6,681	-	-
Additions during the year	979	725	-	-
Reclassifications/ internal transfers	(1,785)	(1,348)	-	-
Interest expense on lease liabilities	630	568	-	-
Payments in the year	(497)	(497)	-	-
Translation adjustment	597	(256)	-	-
At end of year	5,797	5,873	-	-

The balance sheet shows the following amounts relating to leases.

	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
Current	998	1,353	-	-
Non Current	4,799	4,520	-	-
	5,797	**5,873**	**-**	**-**

The statement of profit or loss shows the following amounts relating to leases:

	2023 Kshs million	2022 Kshs million
Amortisation of right-of-use assets	872	1,155
Interest expense	630	568
Expense relating to short-term leases (included in administrative expenses)	342	337

Notes (continued)

38. Lease liabilities (continued)

The total cash outflow for leases in the year was KShs 497 million (2022: KShs 497 million) that related to principal portion of lease payments, expenses related to short term leases and interest expense on the leases.

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

39. Related party transactions

The group entities transact with each other in the ordinary course of business under the group established commercial arrangements. The transactions include loans, deposits and foreign currency transactions, and expense settlements between entities. Related party transactions and balances have been eliminated in the consolidated financial statements. The KCB Group Plc, incorporated in Kenya is the non-operating Holding Company for all subsidiaries and is the ultimate parent and controlling party.

The outstanding balances between the company and its subsidiaries at year end are set out below. Receivables from and payables to subsidiaries are non-interest bearing and are generally settled within 90 days.

(a) Deposits with related parties	**2023 Kshs million**	**2022 Kshs million**
National Bank of Kenya	4,784	59
KCB Bank South Sudan Limited	725	23
KCB Bank Uganda Limited	27	20
Kencom House Limited	3	2
KCB Bank Tanzania Limited	199	163
BPR Bank Rwanda PLC	126	83
KCB Bank Burundi Ltd	98	99
KCB Investment Bank Limited	2	1
KCB Bank Kenya Limited	-	3,213
KCB Bancassurance Intermediary Limited	5	-
	5,969	**3,663**
(b) Balances due to related companies		
Trust Merchant Bank SA	4,753	-
KCB Bank Kenya Limited	6,417	5,985
KCB Bancassurance Intermediary Limited	-	38
	11,170	**6,023**
Net balances payable/ receivable from group companies	**(5,201)**	**(2,360)**

The above amounts relate to receivables from and payable to the holding company.

Notes (continued)

39. Related party transactions (continued)

	Group		Company	
	2023 KShs million	**2022 KShs million**	**2023 KShs million**	**2022 KShs million**
(i) Loans				
Government of Kenya	32	19	-	-
Directors -Executive	144	211	-	-
-Non- executive				
Senior management	176	230	-	-
			-	-
Movement in loans ***to Directors and senior management:***				
At start of year	230	203	-	-
Loans issued in the year	176	258	-	-
Repayments in the year	(230)	(231)	-	-
At end of year	176	230	-	-
Accrued interest income	14	24		
(ii) Deposits				
Government of Kenya	177	38	-	-
Directors	3	81	-	-
Senior management	12	47	-	-
At end of year	202	128	-	-
Movement in deposits ***by Directors and senior management:***				
At start of year	128	129	-	-
Deposits received during the year	996	13	-	-
Withdrawals in the year	(1,109)	(14)	-	-
At end of year	15	128	-	-
Interest expense	4	26		

Interest rates charged on balances outstanding from related parties are approximately half of the rates that would be charged in an arm's length transaction. The interest charged on balances outstanding from related parties amounted to KShs 4 million (2022 – KShs 26million). The interest paid on balances outstanding to related parties amounted to KShs 14 million (2022 – KShs 24 million). The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured, and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel and no specific allowance has been made for impairment losses on balances with key management personnel at the reporting date.

Notes (continued)

39. Related party transactions (continued)

(c) Shareholders, Directors and key management personnel

Senior management personnel compensation (Included under personnel costs)	**Group**		**Company**	
	2023 KShs million	**2022 KShs million**	**2023 KShs million**	**2022 KShs million**
Short term employee benefits	445	442	445	442

(d) Directors' emoluments

	Group		**Company**	
	2023 KShs million	**2022 KShs million**	**2023 KShs million**	**2022 KShs million**
Executive directors:				
Salaries and other staff benefits	445	442	445	442
Fees and other benefits to non-executive directors	78	126	78	126
	523	568	523	568

40. Borrowings

	GROUP		**COMPANY**	
	2023 Kshs million	**2022 Kshs million**	**2023 Kshs million**	**2022 Kshs million**
Maturing within one year	10,426	204	-	-
Maturing after one year, but within five years	56,483	17,380	-	-
Maturing after five years	21,749	46,026	-	-
	88,658	63,610	-	-

Included in borrowings are funds received from third parties in exchange for non-performing loans under Standby Letters of Credit (SBLC) arrangements in KCB Bank Kenya. The corresponding loans have not been derecognised because the bank retains the credit and late-payment risks on the loans.

Notes (continued)

40. Borrowings (continued)

Reconciliation of the movement in the long-term debt

	2023 Kshs million	2022 Kshs million
At start of year	63,610	37,561
Funds received – European Investment Bank	4,643	20,535
Proceeds from Standby Letters of Credit arrangements	12,400	-
Interest accrued in the year	6,484	6,947
Payments on principal	(6,629)	(2,638)
Payments on interest	(5,303)	(2,450)
Translation differences	13,453	3,655
Net movement in borrowings	25,048	26,049
At end of year	88,658	63,610

The long-term debt includes: -

(a) A 7-year loan obtained from African Development Bank (ADB) in 2018 of USD 100 million by KCB Bank Kenya at interest terms of Libor+2.70 p.a.%.
(b) A 7-year loan obtained from International Finance Corporation (IFC) in 2018 of USD 75 million by KCB Bank Kenya at interest terms of Libor+5.3 p.a.%.
(c) A 10-year loan obtained from International Finance Corporation in 2020 of USD 150 million by KCB Bank Kenya Ltd at interest terms of Libor +5.15 p.a.%.
(d) A 5-year loan of RWF 4,412 million obtained by BPR Bank Rwanda from European Investment Bank, its effective interest rate is 8.04 p.a.%
(e) A 5-year loan obtained from International Finance Corporation by KCB Bank Uganda in 2016 of USD 10 million at interest terms of Libor +3.5 p.a. %.
(f) A 7-year loan obtained from European Investment Bank by KCB Bank Uganda in 2017 of UGX 33 billion at interest terms of 11.66 p.a. %
(g) A 7-year loan obtained from European Investment Bank (EIB) by KCB Bank Tanzania in 2017 of TZS 27.9 billion at interest terms of 9.72% p.a.
(h) A 3-year loan obtained from Tanzania Mortgage Refinance Company (TMRC) by KCB Bank Tanzania in 2017 of TZS 5.0 billion at interest terms of 12.5% p.a.
(i) A 3-year loan obtained from Tanzania Mortgage Refinance Company (TMRC) by KCB Bank Tanzania in 2018 of TZS 5.0 billion at interest terms of 10.0% p.a.
(j) A 7year loan obtained of EUR 7 million from European Investment Bank at interest terms of 7.96% p.a. by KCB Bank Rwanda in 2019.
(k) A 8 -year loan obtained from Kenya Mortgage Refinance Company (KMRC) in 2022 of KES 1.7 billion by the Bank at interest terms of 5.00% p.a
(l) A 10-year loan obtained from International Finance Corporation in 2022 of USD 150 million by the Bank at interest terms of SOFR +1.8% p.a
(m) A 5-year loan obtained by NBK from Global Access Fund Plc in 2022 at interest terms of 4.50% p.a
(n) A 7- year loan obtained from European Investment Bank (EIB) by KCB Bank Tanzania in 2023 of USD 21.9 million at interest terms of 5.814% p.a.

The Group's long-term borrowing contracts are subjected to specific covenant clauses, whereby the Group is required to meet certain key financial ratios.

Notes (continued)

40. Borrowings (continued)

At 31 December 2023, the actual ratios for one of our subsidiaries (KCB Bank Kenya) was higher than required, as a result of an increase in loans in arrears for more than ninety (90) days and increase in restructured loans, particularly within the hospitality, tourism, real estate, building and construction sectors which have been impacted by the prolonged Covid 19 pandemic effects.

The Group was, however, compliant with all principal and interest repayments as required in the loan agreements. In addition, the lenders have not varied the terms of the loan agreement or requested for an early repayment of the loan as at the date these financial statements were approved by the Board of Directors. Management is in the process of seeking a waiver of the ratios that are in breach and expects approval by the second quarter of 2024.

The Group's long-term borrowing contracts are subjected to specific covenant clauses, whereby the Group is required to meet certain key financial ratios.

At 31 December 2023, the Group was not compliant with all the financial ratios.

41. Share capital

	GROUP AND COMPANY	
	2023	**2022**
	Kshs million	**Kshs million**
Authorised:		
4,500,000,000 (2022: 4,500,000,000) at 1 January and 31 December ordinary shares of Kshs 1 each		
Issued and fully paid:		
At start of year 3,213,462,815 and at end of year ordinary shares of KShs 1 each	**3,213**	**3,213**

All ordinary shares rank equally with regards to the Company's residual assets, entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the company.

42. Reserves

Other reserves comprise of retirement benefits obligation reserve, currency translation reserve and fair value reserves on financial assets at fair value through other comprehensive income.

The fair value reserve on financial assets carried at fair value through other comprehensive income (FVTOCI) arises from the fair valuation of the designated assets at the year end. The fair value gains and losses are recognised in the profit or loss on the derecognition of the underlying assets. This amount is not available for distribution to shareholders.

The *translation reserve* arises from translation of the net investment in foreign subsidiaries to Kenya Shillings. This amount is not available for distribution.

Retirement benefits obligation reserve arises from changes in the group retirement benefits obligation based on annual actuarial valuations. The reserves are recognized in income statement once the underlying asset has been derecognized and is not available for distribution.

Notes (continued)

42. Reserves (continued)

The movement in other reserves is as follows:

	GROUP		COMPANY	
	2023 Kshs million	**2022 Kshs million**	**2023 Kshs million**	**2022 Kshs million**
At 1 January	(11,042)	(8,385)	-	-
Foreign currency translation differences for foreign operations	1,281	448	-	-
Re-measurement benefits obligation (net of tax)	59	(153)	-	-
Change of fair value of financial assets at FVOCI	(6,982)	(2,952)	-	-
At 31 December	**(16,684)**	**(11,042)**	**-**	**-**

The *share premium* arises from issue of shares at a price higher than the par value of the shares. This amount is not available for distribution.

Statutory credit risk reserve relates to amounts set aside to cover additional provision for credit losses on loans and advances required to comply with the requirements of Central Banks Prudential guidelines. This amount is not available for distribution. The movement is the year is as follows:

	2023 KShs million	**2022 KShs million**
At start of year	26,707	7,959
Transfers from retained earnings	(9,555)	18,748
At end of year	17,152	26,707

43. Dividends

Dividends are recognized as a liability in the period in which they are declared.

At the Annual General Meeting to be held on 27 May 2024, a final dividend in respect of the year ended 31 December 2023 will be Nil (2022: KShs 2.00 per share) amounting to KShs Nil (2022: KShs 6,426 million) will be proposed. Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

Notes (continued)

44. Notes to the statement of cash flows

(a) Cash flows from operating activities	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
This has been derived as follows:				
Profit before tax	48,453	57,331	768	32,204
Adjustments for:				
Depreciation of property and equipment	4,261	2,835	18	16
Depreciation of right of use	872	1,155		
Amortization of intangible assets	4,196	2,625	2	2
Retirement benefit expense	60	68	-	-
Interest expense on lease liability	471	470	-	-
Net interest income	(120,712)	(100,905)	(252)	(19)
Dividend income			-	(32,824)
Hyperinflation adjustments	-	(299)		
(Loss)/Profit on disposal of property and equipment	-	7	-	-
Operating profit before movements in operating assets and liabilities	(62,399)	(36,713)	536	(621)

Notes (continued)

44. Notes to the statement of cash flows (continued)

(b) Cash flows from operating activities	**GROUP**		**COMPANY**	
	2023 Kshs million	**2022 Kshs million**	**2023 Kshs million**	**2022 Kshs million**
Cash reserve ratio	(8,627)	(3,985)	-	-
Financial assets at armotised cost	(32,337)	(33,395)	-	-
Financial assets at FVOCI	(86,777)	26,206	-	-
Loans and advances	(232,503)	(129,275)	-	-
Balances due from related companies	-	-	4,685	1,800
Other assets	(15,915)	(17,218)	(27)	(58)
Right of use asset	-	-	-	-
Deposits from banks	(4,978)	44,959	-	-
Other customer deposits	588,732	111,097	-	-
Other liabilities	(8,876)	11,539	(141)	160
Due to related parties	-	-	2,943	2,360
Investment accounted for using equity method	-	(675)	-	-
	135,771	**(27,460)**	**2,110**	**3,641**
Interest received	181,553	262,921	252	19
Dividend received	-	-	1,091	32,739
Interest paid	(60,841)	(31,098)	-	-
Income taxes paid	(12,747)	(23,968)	(25)	(31)
Net cash flows from operating activities	**243,736**	**180,395**	**3,428**	**36,368**

(c) Analysis of cash and cash equivalents

	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Balances with Central Banks (Note 21)	17,465	16,685	-	-
Cash on hand (Note 21)	66,143	29,290	-	-
Financial assets at armotised cost (Note 27)	6,910	3,681	-	-
Advances to banks (Note 22)	369,119	163,632	927	712
	459,637	**213,288**	**927**	**712**

For the purpose of the statement of cash flows, cash and cash equivalents comprise financial assets at amortised cost with less than three months to maturity from the date of acquisition.

Cash and cash equivalents exclude, KShs 53,783 million (2022 - KShs 45,156 million) being the cash reserve requirement held with the Central Banks which is not available for general use by the Group.

Notes (continued)

44. Notes to the statement of cash flows (continued)

Analysis of cash and cash equivalents (continued)
The cash and cash equivalent components disclosed above are same amounts included in the statement of financial position except held at amortised cost investments, whose reconciliation is as follows:

	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
Balance as per statement of cash flows	6,910	3,681	-	-
Balances with less than three months maturity from the acquisition date	189,949	160,841	-	-
Balance as per statement of financial position	**196,859**	**164,522**	-	-

45. Commitments

To meet the financial needs of the customers, the Group enters into various irrevocable commitments. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

	GROUP		COMPANY	
	2023 Kshs million	2022 Kshs million	2023 Kshs million	2022 Kshs million
Capital commitments contracted for at year end	869	2,682	-	-
Loans committed but not disbursed at year end	103,636	81,727	-	-
Foreign currency commitments	3,866	(15,035)	-	-

Commitments to extend credit represent contractual commitments to make loans and other credit facilities to counterparties who, as per the Group credit risk rating model, are rated as either normal or watch. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

46. Off balance sheet financial instruments

	2023 Kshs million	2022 Kshs million
Letters of credit:		
- Issued and accepted	271,948	11,817
- Issued but not yet accepted	123,807	45,356
	395,755	57,173
Guarantees	105,100	112,977
Forward foreign exchange contract	6,581	6,308
Lease commitment	5,412	5,412
Total	512,848	181,870

Letters of credit commit the Group to make payment to third parties, on production of documents, which are subsequently reimbursed by customers. An acceptance is an undertaking to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented and reimbursement by the customer is almost immediate.

Notes (continued)

46. Off balance sheet financial instruments (continued)

At 31 December 2023, the issued & accepted letters of credit included Kshs 232 million (2022: Kshs Nil) relating to structured fuel importation financing arrangement which are partially secured by customers deposits (Note 30). Issued but not yet accepted letters of credit included Kshs 82 million (2022: Kshs Nil) relating to structured fuel importation financing arrangements.

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

Forward foreign exchange contracts are commitments to either purchase or sell a designated financial instrument at a specified future date for a specified price and may be settled in cash or another financial asset. The fair values of the respective currency forwards are carried under financial assets and liabilities held for trading.

Included in the 2023 results are significant commodity transactions that were not present in the 2022 financial statements. That informs the growth in Off balance sheet.

47. Contingent liabilities

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has established protocol for dealing with legal claims. The directors use the best available information, including independent external legal opinions, to determine any provisions for losses or disclosures to be made in the financial statements.

The Group entities had several unresolved legal and tax claims arising in the ordinary course of business at the year end. The unresolved tax claims and legal disputes are individually evaluated at the year end for potential losses to the group. Where necessary, the directors seek independent legal advice on the significant unresolved tax claims and legal matters. Based on the information available at the approval of these financial statements, the directors believe the ultimate resolution of the unresolved tax claims and legal proceedings will not have a material effect on the group's operations.

48. Retirement benefit obligations

KCB Pension Fund and Staff Retirement Benefit Scheme

The Group operates a funded defined benefit plan. The Fund closed to new entrants effective 1 June 2006. The Fund is non-contributory with the Group responsible for the cost of benefits accruing. The Fund is established under trust. The Fund assets are invested in a variety of asset classes comprising Government securities, corporate bonds, call and term deposits, investment properties, shares and offshore investments. Old Mutual Asset Managers and Pine Bridge Investments (East Africa) limited are responsible for the investment of assets.

Characteristics and risks of the Fund
The Fund is registered under irrevocable trust with the Retirement Benefits Authority. The Retirement Benefits Act, 1997 ("the Act") and the Regulations under the Act require the Fund to maintain a funding level of 100%. Where the funding level is below, such deficits are required to be amortized over a period not exceeding 6 years.

Notes (continued)

48. Retirement benefit obligations (continued)

KCB Pension Fund and Staff Retirement Benefit Scheme (continued)

- The Fund is managed by a Board of Trustees. The Board is responsible for the overall operation of the Fund including making sure benefits are paid to beneficiaries on time.
- 42.9% of the Fund assets are invested in property assets. The exposure is a concentration risk to the property market for the Fund and, by extension, the Company.

Following the closing of the Fund as of 1 June 2006, some active in-service members opted to transfer their accrued benefits under the Fund to the new Defined Contribution Plan established by the Company. The Fund therefore comprises mainly of pensioners and deferred pensioners, although some in-service members remain in the Fund.

Some of the main risks relating to the benefits under the Fund are the rates of pension increases and the rates of return earned on the Fund assets. For the in-service members, rates of salary escalation will also have a direct bearing on the benefits paid under the Fund. In addition, the pension benefits are payable for the duration of the life of the pensioners. Therefore, the Fund's post-retirement mortality experience with respect to the pensioners will also have an impact on the liabilities under the Fund.

The information below summarizes the scheme assets and liabilities:

Composition of fund assets based on the Investment Manager's reports as of 31 December 2023.

	2023 Kshs million	2023 %	2022 Kshs million	2022 %
Property	1,854	31.63%	1,804	27.91%
Government securities	3,159	53.89%	3,579	55.37%
Fixed and term deposits	271	4.62%	258	3.99%
Quoted equities	509	8.68%	749	11.59%
Corporate bonds	47	0.80%	48	0.74%
Cash and demand deposits	22	0.38%	-	0.00%
Net current liability	-	0.00%	26	0.40%
Total	**5,862**	**100%**	**6,464**	**100%**

Changes in the present value of the defined benefit obligation over the year:

	2023 Kshs million	2022 Kshs million
At start of year	7,049	7,321
Transfers at 1 January 2016 from KCB Group PLC	60	68
Current service cost (net of employer contributions)	918	903
Interest cost	(84)	-
Actuarial gains/(losses) due to changes in assumptions	(566)	(381)
Benefits paid	(914)	(862)
At end of year	**6,463**	**7,049**

Notes (continued)

48. Retirement benefit obligations (continued)

KCB Pension Fund and Staff Retirement Benefit Scheme (continued)

Changes in the fair value of plan assets over the year

	2023 Kshs million	2022 Kshs million
At start of year	7,049	7,321
Transfers at 1 January 2016 from KCB Group PLC	60	68
Current service cost (net of employer contributions)	918	903
Interest cost	(84)	-
Actuarial gains/(losses) due to changes in assumptions	(566)	(381)
Benefits paid	(914)	(862)
At end of year	**6,463**	**7,049**

The amounts recognised in the statement of financial position are determined as follows;

Reconciliation of liability in the statement of financial position:

	2023 Kshs million	2022 Kshs million
Present value of fund obligations	6,463	7,049
Fair value of plan assets	(5,862)	(6,464)
Effect of asset ceiling at end of period	-	-
Asset recognised in the statement of financial position	**601**	**585**

The amount recognised in profit and loss for the year are as follows:

At start of year	585	458
Net expense recognised in statement of profit and loss		
Employer contribution	135	121
Amount recognised in other comprehensive income	(35)	(212)
	(84)	218
At end of year	**601**	**585**

The amount recognized in profit and loss for the year are as follows:

	2023 Kshs million	2022 Kshs million
Service cost		
Current service cost (employer)	60	68
Total service cost	**60**	**68**
Interest cost		
Interest cost on defined benefit obligation	918	903
Interest income on plan assets	(843)	(850)
Interest on the effect of the asset ceiling	-	-
Net interest cost on balance sheet liability	**75**	**53**
Net included in profit and loss in respect of the scheme	**135**	**121**

Notes (continued)

48. Retirement benefit obligations (continued)

KCB Pension Fund and Staff Retirement Benefit Scheme (continued)

Re-measurement (other comprehensive income)

	2023 Kshs million	2022 Kshs million
Actuarial loss – obligation	(650)	(381)
Return on plan assets (excluding amount in interest cost)	566	599
Amount recognised in other comprehensive income	(84)	**218**

The principal actuarial assumptions used are as follows:

Actuarial Assumptions	**2023**	**2022**
Discount Rate (% p.a.)	13.00%	13.00%
Future salary increases (% p.a.)	6.00%	6.00%
Future pension increases (% p.a.)	0.00%	0.00%
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	a(55) Ultimate	a(55) Ultimate
Withdrawals (voluntary)	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement age	55 Years	55 Years

Sensitivity Analysis

The results of the actuarial valuation will be more sensitive to changes in the financial assumptions than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount rate used, The Group has relied on our calculations of the duration of the liability. Based on this methodology, the results of our sensitivity analysis are summarized in the table below:

	Current discount rate (14.5% per annum) 2023 Kshs million	Discount rate -1% (13.5% per annum) 2022 Kshs million
Present value of obligation	6,463	7,049

Given a large portion of the liability is in respect of inactive members, the sensitivity of the liability to a change in the salary escalation assumption will not be as significant as a change to the discount rate as it affects only in-service members.

49. Hyperinflation

For the financial year ended 31 December 2023, the directors evaluated and determined the economy of South Sudan not to be hyperinflationary.

50. Subsequent Events

On 20 March 2024, KCB Group PLC ("KCB") entered into a binding agreement to sale all its shareholding in National Bank of Kenya Limited to Access Bank PLC subject to conditions that are customary for transactions of this nature including receipt all regulatory approvals from, amongst others, the Central Bank of Kenya, the Central Bank of Nigeria, the COMESA Competition Commission, and notifications to other relevant regulators.

--------------------------------------000--------------------------------------