STANBIC BANK KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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Chairman:	Kitili Mbathi	(Retired on 31 December 2023)
	Joseph Muganda	(Appointed 01 January 2024)
Chief Executive:	Joshua Oigara	
Chief Executive of Stanbic Holdings Plc:	Patrick Mweheire*	
Non-Executive Directors:		
	Peter N. Gethi	
	Rose B. Osoro	
	Dorcas Kombo	
	Samuel N. Gikandi	(Retired on 18 May 2023)
	Peter L. Schlebusch**	
	Wambui K. Mbesa	
	* Ugandan	
	** South African	
Company Secretary:	Nancy Kiruki P.O. Box 72833 00200 Nairobi, Kenya	
Auditor:	KPMG Kenya 8th Floor, ABC Towers Waiyaki Way P.O. Box 40612 00100 Nairobi, Kenya	
Registered Office:	Stanbic Bank Centre Chiromo Road, Westlands P.O. Box 72833 00200 Nairobi, Kenya	
Ultimate Parent:	Standard Bank Group Limited (South Africa) 9th Floor, Standard Bank Centre 5 Simmonds Street, Johannesburg 2001 P.O.Box 7725, Johannesburg 2000 Johannesburg, South Africa	

The Directors submit their report together with the audited financial statements for the year ended 31 December 2023, which disclose the state of affairs of Stanbic Bank Kenya Limited (the "Bank" or the "Company").

Principal activities

The Bank is a licensed financial institution under the Banking Act (Cap 488) and is a member of the Kenya Bankers Association.

The Bank is engaged in the business of banking and the provision of banking related services.

Principal risks and uncertainities

The Bank has exposure to various risks from its operations. These are -:

a) Credit risk
b) Liquidity risk
c) Market risk
d) Operational risk

These are explained in more detail on Note 4 of the financial statements.

Business review and financial performance

The global economy grew by 3.1% in 2023, compared to 3.5% growth recorded in 2022. The slowdown in the Global economy's growth was majorly due to the persistent inflationary pressures occassioned by high global fuel and energy prices. Output levels fluctuated during the year with the highest Stanbic Purchase Managers Index (PMI) being in January at 52 points followed by August at 50.6 points. By December, the PMI was at a low of 48.8 points. June had the lowest PMI at 45.5 attributable to instability in the political environment, increase in fuel prices and further tightening of financial conditions.

The Kenyan shilling recorded a significant depreciation in the year as interest rates rose in major economies and foreign-exchange inflows from exports declined as offshore investors reduced their holdings.. The currency depreciated by 26.4% against the dollar in 2023. Inflation averaged 7.7% in 2023 from 7.6% in 2022, as the effects of impact of the severe drought of 2022 and geopolitical tensions that caused a spike in energy prices began to unwind.

The Central Bank's Monetary Policy Committee (MPC) hiked the policy rate by 375 basis points in 2023 (through three raises) to 12.50% in December. The year has also been characterized by increased taxation and regulatory levies, further reducing the disposable income by consumers.

The banking sector recorded a decline in pre-tax profits from KShs 185 billion in September 2022 to KShs 178 billion in September 2023 largely attributable to increase in costs and higher credit provisions compared to the increase in income. Profit after Tax (PAT) declined by 2% year-on-year. The sector recorded significant growth in interest income driven by higher lending rates as well as interest rate on government securities. Similarly, interest expenses grew driven by an increase in the effective interest rate on customer deposits.

The growth in interest expense outpaced the growth in interest income for the sector leading to compressed net interest rate margins. The average lending rate stood at 14% while the average deposit rate stood at 8.6% as at 30 September 2023, up from 12.4% and 6.8%, respectively in September 2022.

Industry growth in customer deposits (20%) outpaced the growth in the loan book (14%). Growth in deposits could be attributed to customers' intent to preserve liquidity, rising interest rates, and commercial banks' leveraging of digital channels to enhance deposit mobilization.

The Bank delivered profit after tax of KShs 11.9Bn representing a 31% year on year growth. The performance was driven by improved net interest margins, balance sheet growth and strong trading revenue.

Balance sheet efficiency improved, and key performance drivers demonstrated decent growth. Lending book expanded by 10% growth largely driven by client demand on the asset side. Deposits from customers grew by 18% following increased average deposit rates.

Business review and financial performance (continued)

Summary results for the year is as follows:

	2023 Kshs. Billion	2022 Kshs. Billion	Change %
Total income	40.4	31.6	27.9
Credit impairment charges	6.2	4.9	25.5
Total operating expenses	17.4	14.5	20.1
Profit for the year	11.9	9.1	30.9
Loans and advances to customers	260.5	235.9	10.4
Non-performing loans	26.5	28.0	(5.4)
Total assets	449.6	390.3	15.2
Deposits from customers	322.2	272.1	18.4
Total shareholders' equity	58.4	52.4	11.5
Cost to income ratio	43.1%	45.9%	(2.8)

Dividends

During the year, interim dividend of KShs 454,095,000 was paid (2022: nil). This translates to KShs 2.65 per ordinary share.
Subject to the approval of the shareholders at the next Annual General Meeting, the Directors recommend payment of a final dividend of KShs 31.20 (2022:KShs 29.90) per ordinary share equivalent to a total sum of KShs 5,335,000,000 (2022: KShs 5,100,000,000). The total dividend for the year, therefore, will be KShs 33.85 (2022: KShs 29.90.) for every one ordinary share amounting to KShs 5,789,095,000 (2022: KShs 5,100,000,000).

The total number of issued shares at year end was 170,577,426 (2022: 170,577,426).

The results for the year are set out fully on page 9 in the attached financial statements.

Directors

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

Events subsequent to the end of the reporting period

No material events have occurred between the end of the reporting period and the date of this report that have an impact on these financial statements.

Management by third parties

There is no aspect of the business of the Bank that has been managed by a third person or a company in which a director has had an interest during the year.

Auditor

Disclosures to 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 has 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 Auditor

KPMG Kenya will retire as auditor of the Bank at the next Annual General Meeting. The Board will recommend the appointment of Deloitte & Touche LLP as the new auditor in accordance with the Company's Articles of Association, Section 717 of the Kenyan Companies Act, 2015 and the Banking Act.

The Directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 05 March 2024.

By Order of the Board,

Nancy Kiruki
Company Secretary
Date: 05 March 2024

The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss for that year. The financial statements comprises the statements of financial position as at 31 December 2023, and the Company statements of profit or loss, the Company statements of other comprehensive income, the Company statements of changes in equity and the Company statements of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies and other explanatory information. It also requires the directors to ensure that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; that disclose, with reasonable accuracy, the financial position of the Company and that enable them to prepare financial statements of the Company that comply with the IFRS Accounting Standards as issued by International Accounting Standards Board (IFRS Accounting Standards) and the requirements of the Kenyan Companies Act, 2015. The Directors are also responsible for safeguarding the assets of the 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 as issued by the International Accounting Standard Board (IFRS Accounting Standards) and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

ii) selecting suitable accounting policies and applying them consistently; and

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

Having made an assessment of the Company's ability to continue as a going concern, the Directors are not aware of any uncertainties related to events or conditions that may cast doubt upon the 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.

The financial statements were approved and authorised for issue by the Board of Directors on 05 March 2024.

Joseph Muganda
Chairman

Joshua Oigara
Chief Executive

Dorcas Kombo
Director

Date: 05 March 2024

KPMG

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Stanbic Bank Kenya Limited (the "Bank") set out on pages 9 to 144, which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies.

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

Basis for opinion

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

Other information

The Directors are responsible for the other information. The other information comprise information included in the *Stanbic Bank Kenya Limited Annual Report and Financial Statements for the year ended 31 December 2023,* but does not include the financial statements and our auditor's report thereon.

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

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

KPMG

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

Report on the audit of 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 in the manner required by the Kenyan Companies Act, 2015 and for such internal controls as 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

KPMG

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF STANBIC BANK KENYA LIMITED (CONTINUED)

Report on the audit of the financial statements (Continued)

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

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

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015 we report to you, solely based on our audit of the financial statements, that in our opinion, the information given in the report of the Directors on pages 2 to 4 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is Jacob Gathecha, Practicing Certificate No P/1610.

For and on behalf of:

KPMG Kenya
Certified Public Accountants
PO Box 40612 - 00100
Nairobi

Date: 05 March 2024

Statement of profit or loss		Year ended 31 December	
	Notes	2023 KShs. million	2022 KShs. million
Interest income	7	37,926	26,081
Interest expense	7	(12,359)	(7,182)
Net interest income		**25,567**	**18,899**
Fees and commission income	8	5,919	4,571
Fees and commission expense	9	(1,024)	(875)
Net fees and commission income		**4,895**	**3,696**
Trading revenue	10	10,247	8,818
Net (loss)/income from financial instruments at fair value through profit or loss	11(a)	(92)	141
Other losses on financial instruments	11(b)	(277)	(2)
Other operating income	12	74	38
Trading and other income		**9,952**	**8,995**
Total income		**40,414**	**31,590**
Credit impairment losses	26.3	(6,235)	(4,939)
Net income before operating expenses		**34,179**	**26,651**
Employee benefits expense	13	(8,323)	(6,966)
Depreciation on property, plant and equipment	30 (a)	(400)	(415)
Depreciation on right-of use assets - land	30 (b)	(3)	(3)
Depreciation on right-of use assets	32	(337)	(331)
Amortisation of intangible assets	31	(196)	(280)
Finance costs	15	(5)	(15)
Other operating expenses		(8,175)	(6,478)
Total operating expenses		**(17,439)**	**(14,488)**
Profit before income tax		**16,740**	**12,163**
Income tax expense	16	(4,820)	(3,074)
Profit for the year		**11,920**	**9,089**
Earnings per share			
Basic and diluted (KShs per share)	17	69.71	53.15

The notes on pages 15 to 144 are an integral part of these financial statements.

Statement of other comprehensive income	Note	Year ended 31 December 2023 KShs. million	2022 KShs. million
Profit for the year		**11,920**	**9,089**
Items that may subsequently be reclassified to profit or loss when specific conditions are met:			
- Net gain in debt financial assets measured at fair value through other comprehensive income (FVOCI)*	22.1	(144)	(58)
- Currency translation differences for foreign operations	42	(222)	(384)
Total other comprehensive loss for the year, net of income tax		**(366)**	**(442)**
Total comprehensive income for the year		**11,554**	**8,647**

** Income tax relating to each component of other comprehensive income is disclosed in note 34*

The notes on pages 15 to 144 are an integral part of these financial statements.

Statement of financial position		As at 31 December	
	Note	2023 KShs. million	2022 KShs. million
Assets			
Cash and balances with Central Bank of Kenya	20	25,503	20,772
Financial assets – (FVTPL)	21 (a)	2,898	25,126
Financial assets – (FVOCI)	22	19,892	32,133
Financial assets – (amortised cost)	23	22,555	26,286
Derivative assets	24	2,250	2,259
Current tax asset	35 (b)	-	21
Loans and advances to banks	25	95,658	30,951
Loans and advances to customers	26	260,508	235,873
Other assets and prepayments	27	7,373	5,993
Other equity investments	29	18	18
Property and equipment	30 (a)	2,078	1,901
Right of use assets - Land	30 (b)	33	36
Intangible assets	31	729	805
Right-of use assets	32	857	925
Deferred tax asset	34 (a)	9,262	7,221
Total assets		**449,614**	**390,320**
Equity and liabilities			
Liabilities			
Derivative liabilities	24	2,570	1,687
Financial liabilities – (FVTPL)	21 (b)	14,071	8,001
Current tax liability	35 (a)	2,168	1,469
Amounts due to banks	37	26,004	32,753
Customer deposits	36	322,211	272,144
Subordinated borrowings	39	12,713	10,141
Other liabilities and accruals	38	10,512	10,611
Lease liabilities	33	1,008	1,157
Total liabilities		**391,257**	**337,963**
Equity			
Ordinary share capital	40	3,412	3,412
Ordinary share premium	41	3,445	3,445
Reserves			
- Translation	42	(2,256)	(2,034)
- Retained earnings		52,452	47,488
- FVOCI	42	(189)	(45)
- Revaluation	42	83	91
- Regulatory credit risk reserve	42	1,410	-
Total equity		**58,357**	**52,357**
Total equity and liabilities		**449,614**	**390,320**

The notes on pages 15 to 144 are an integral part of these financial statements.

The financial statements on pages 9 to 144 were approved and authorised for issue by the Board of Directors on 05 March 2024 and signed on its behalf by:

Chairman: ____________________
Joseph Muganda

Chief Executive: ____________________
Joshua Oigara

Director: ____________________
Dorcas Kombo

Statement of changes in equity

Year ended 31 December 2023	Note	Ordinary share capital	Ordinary share premium	Regulatory credit risk reserve	Foreign currency translation reserve	Revaluation of financial assets-Fair value through OCI	Revaluation reserve on buildings	Retained earnings	Total equity
		KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
At 1 January 2023		**3,412**	**3,445**	**-**	**(2,034)**	**(45)**	**91**	**47,488**	**52,357**
Total comprehensive income									
Profit for the year		-	-	-	-	-	-	11,920	**11,920**
Other comprehensive income									
Other comprehensive, net of tax					(222)	(144)			**(366)**
Total comprehensive income for the year		**-**	**-**	**-**	**(222)**	**(144)**	**-**	**11,920**	**11,554**
Transfer of revaluation reserves		-	-	-	-	-	(8)	8	-
Transfer of statutory credit risk reserve		**-**	**-**	**1,410**	**-**	**-**	**-**	**(1,410)**	**-**
Transactions with owners recorded directly in equity									
2022 final dividend paid								(5,100)	**(5,100)**
2023 interim dividend paid	18	-	-	-	-	-	-	(454)	**(454)**
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**-**	**(5,554)**	**(5,554)**
At 31 December 2023		**3,412**	**3,445**	**1,410**	**(2,256)**	**(189)**	**83**	**52,452**	**58,357**

The notes on pages 15 to 144 are an integral part of these financial statements.

Statement of changes in equity (continued)

Year ended 31 December 2022	Note	Ordinary share capital	Ordinary share premium	Regulatory credit risk reserve	Foreign currency translation reserve	Revaluation of financial assets-Fair value through OCI	Revaluation reserve on buildings	Retained earnings	Total equity
		KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million
At 1 January 2022		3,412	3,445	-	(1,650)	13	99	41,191	46,510
Profit for the year		-	-	-	-	-	-	9,089	**9,089**
Other comprehensive income, net of tax		-	-	-	(384)	(58)	-	-	**(442)**
Total comprehensive income for the year		**-**	**-**	**-**	**(384)**	**(58)**	**-**	**9,089**	**8,647**
Transfer of revaluation reserves		**-**	**-**	**-**	**-**	**-**	(8)	8	-
Transactions with owners recorded directly in equity									
2021 final dividend paid	18	-	-	-	-	-	-	(2,800)	**(2,800)**
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**-**	**(2,800)**	**(2,800)**
At 31 December 2022		**3,412**	**3,445**	**-**	**(2,034)**	**(45)**	**91**	**47,488**	**52,357**

The notes on pages 15 to 144 are an integral part of these financial statements.

Statement of cash flows

	Note	2023 KShs. million	2022 KShs. million
Cash flows from operating activities	46.1	(3,744)	(3,387)
Interest paid		(13,860)	(7,205)
Interest received		36,277	23,392
Income tax paid	35	(6,093)	(4,927)
Cash flows from operating activities before changes in operating assets and liabilities		**12,580**	**7,873**
Changes in operating assets and liabilities:			
Loans and advances to customers		(24,635)	(50,559)
Loans and advances to banks		(549)	(588)
Financial assets–(FVTPL)		(1,635)	6,316
Financial assets – (FVOCI)		10,626	(5,737)
Deposits held for regulatory purposes (cash reserve ratio)		(3,697)	(564)
Other assets and prepayments		(1,380)	(2,485)
Amounts due to banks		(13,931)	15,758
Other liabilities and accruals		(99)	3,911
Customer deposits		50,067	29,181
Financial liabilities - (FVTPL)		6,070	7,644
Net cash generated from /(used in) operating activities		**33,417**	**10,750**
Cash flows from investing activities:			
Purchase of financial investments – (amortised cost)		3,731	(4,513)
Purchase of property and equipment	30(a)	(615)	(477)
Purchase of intangible assets - software	31	(122)	(156)
Proceeds from disposal of property and equipment		15	9
Net cash (used in)/generated from investing activities		**3,009**	**(5,137)**
Cash flows from financing activities:			
Dividends paid	18	(5,554)	(2,800)
Proceeds from borrowings	39	-	3,764
Payments of principal portion of the lease liabilities	33	(476)	(337)
Net cash generated from /(used in) financing activities		**(6,030)**	**627**
Net increase /(decrease) in cash and cash equivalents		**30,396**	**6,240**
Cash and cash equivalents at start of year	46.2	69,181	62,545
Effect of exchange rate changes		2,420	396
Cash and cash equivalents at end of year	46.2	**101,997**	**69,181**

The notes on pages 15 to 144 are an integral part of these financial statements.

Notes

1 General information

Stanbic Bank Kenya Limited is incorporated in Kenya under the Kenyan Companies Act, 2015 as a limited liability company, and is domiciled in Kenya. The address of its registered office is:

Stanbic Bank Centre
Chiromo Road, Westlands
P.O. Box 72833
00200 Nairobi GPO

The Bank provides personal, business, corporate and investment banking services.

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

2 Summary of material accounting policies

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

a) Basis of preparation

The annual financial statements (AFS) are prepared in accordance with IFRS(R) Accounting Standards as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, and the Kenyan Companies Act, 2015. The financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position, which are measured at fair value:

- Fair value through other comprehensive income (FVOCI) financial assets, financial assets and liabilities at fair value through profit or loss (FVTPL) and liabilities for cash-settled and equity-settled share-based payment arrangements (accounting policy 2.6).

The following principal accounting policy elections in terms of IFRS Accounting Standards have been made, with reference to the detailed accounting policies shown in brackets:

- purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 2.5);
- property and equipment and intangible assets are accounted for using the cost model except for revaluation of buildings that arose from the merger between the former CfC Bank and Stanbic Bank in 2008 (accounting policy 2.7 and 2.8);
- the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy 2.6); and
- hyperinflation - the South Sudan economy was considered hyperinflationary in the previous reporting period. However, for the year ended 31 December 2023, the economy was assessed to have ceased being hyperinflationary and as such hyperinflation accounting was discontinued. Refer to accounting policy 2.21 applicable for the comparative period.

The Bank has not prepared the consolidated financial statements incorporating the Stanbic Nominees Limited and Stanbic Kenya Foundation accounts which it controls in line with the exemption allowed under IFRSs 10, Consolidated Financial Statements.

The exemption conditions have been satisfied as follows:

i) The ultimate parent of the Bank, Stanbic Holding Plc, incorporated in Kenya, produces consolidated financial statements available for public use that comply with International Financial Reporting Standards;

ii) the financial statements of Stanbic Holding Plc for the year ended 31 December 2023 are available for public use and can be obtained at the company's place of business shown above;

Notes (continued)

2 Summary of material accounting policies (continued)

a) Basis of preparation (continued)

iii) the Bank did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market;

iv) The entities are immaterial hence no reference to separate financial statements;

v) the Bank had no publicly traded equity or debt instruments; and

vi) the Bank is a subsidiary of Stanbic Holding Plc whose owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the Bank not presenting consolidated financial statements.

The Bank has significant control over Stanbic Nominees Limited and Stanbic Kenya Foundation.

Estimates

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in applying the accounting policies. These judgements and estimates used to prepare these financial statements are disclosed in Note 3.

b) Functional and presentation currency

The annual financial statements are presented in Kenya Shillings (KShs) which is the functional and presentation currency of the Bank. All amounts are stated in millions of shillings (KShs' million), unless indicated otherwise. Items included in the financial statements of each of the Bank's operations are measured using the currency of the primary economic environment in which the entity operates, which is South Sudan Pound (SSP) for South Sudan Branch and Kenya Shillings (KShs) for Kenya operations.

c) Changes in accounting policies and disclosures

(i) Adoption of new and amended standards effective for the current period

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 17 Insurance Contracts - IFRS 17 'Insurance Contracts' establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.

These amendments had no significant impact on the financial statements of the Bank as it does not issue insurance contracts.

Definition of Accounting Estimates - Amendments to IAS 8 - The amendments introduce the definition of accounting estimates and include amendments to assist entities to distinguish between changes in accounting estimates, changes in accounting policies, and the correction of errors. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates.

These amendments had no impact on the financial statements of the Bank.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 - In response to the IASB's Disclosure Initiative – Principles of Disclosure, the amendments introduce a requirement on entities to disclose their material accounting policy information rather than significant accounting policies. To support this amendment the IASB also amended its IFRS Materiality Practice Statement to explain and demonstrate the application of the materiality process to accounting policy disclosures.
The amendments have had no material impact on the Bank's disclosures of accounting policies, measurement, recognition or presentation of any items in the Bank's financial statements.

Notes (continued)

2 Summary of material accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

(i) Adoption of new and amended standards effective for the current period (continued)

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12
The amendments narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The amendments had no impact on the Bank's financial statements.

(ii) Standards and interpretations that have been published but are not yet effective

The following new standards, and amendments are not yet effective for the year ended 31 December 2023 and have not been applied in preparing these annual financial statements

Standards and	Key requirements	Effective date
Amendments to IFRS 16: Lease Liability in a Sale and Leaseback (issued in September 2022)	The amendments add to requirements explaining how a company accounts for a sale and leaseback after the date of the transaction. IFRS 16 had not previously specified how to measure the transaction when reporting after that date. The amendments add to the sale and leaseback requirements in IFRS 16, thereby supporting the consistent application of the standard. These amendments will not change the accounting for leases other than those arising in a sale and leaseback transaction. The amendments will be applied retrospectively and are not expected to have a material impact on the Bank's financial statements.	01 January 2024
Amendments to IAS 7 and IFRS 7- Supplier Finance Arrangements (issued in May 2023)	The amendments introduce new disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The amendments are not expected to have a material impact on the Bank's financial statements.	01 January 2024

Notes (continued)

2 Summary of material accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

(ii) Standards and interpretations that have been published but are not yet effective (continued)

Standards and amendments	Key requirements	Effective date
Amendments to IAS 1: Classification of Liabilities as Current or Non-current (issued in January 2020 and October 2022)	The first amendment clarifies how to classify debt and other liabilities as current or non-current. The objective of the amendment is aimed to promote consistency in applying the requirements by helping entities determine whether debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendment also includes clarifying the classification requirements for debt an entity might settle by converting it into equity. The amendments are not expected to have a material impact on the Bank's financial statements. The second amendment to IAS 1 requires a company to classify debt as non-current only if the company can avoid settling the debt in the 12 months after the reporting date. However, a company's ability to do so is often subject to complying with covenants. For example, a company might have long-term debt that could become repayable within 12 months if the company fails to comply with covenants in that 12-month period. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements and the aim of the amendments therefore is to improve the information companies provide about long-term debt with covenants. The amendments will be applied retrospectively and are not expected to have a material impact on the Bank's financial statements.	01 January 2024
Lack of Exchangeability (Amendments to IAS 21) (issued in August 2023)	The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not. The amendments are not expected to have a material impact on the Bank's financial statements.	01 January 2025

The Bank does not expect that adoption of these standards and interpretations will have a material impact on the financial statements in future periods.

2 Summary of material accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

(iii) IFRS Sustainability Standards issued by ISSB but are not yet effective

IFRS S1 and IFRS S2 (issued in June 2023)	In June 2023 the ISSB issued its first two IFRS sustainability disclosures standards. IFRS S1 prescribes how companies prepare and report their sustainability-related financial disclosures. IFRS S1 sets out the general requirements for a company to disclose information about its sustainability related risks and opportunities that is useful to users in making decisions relating to providing resources to the company. IFRS S1 also integrates and builds on the recommendations of the Task Force on Climate-related Financial Disclosures (TFCD). IFRS S1 was developed to achieve more consistent, complete, comparable and verifiable information about companies' exposure to and management of sustainability-related risks and opportunities. IFRS S2 sets out the requirements for companies to disclose information about their climate-related risks and opportunities, while building on the requirements of IFRS S1. The ISSB developed IFRS S2 to achieve more consistent, complete, comparable and verifiable information about a company's climate-related risks and opportunities. These standards are effective for annual reporting periods beginning on or after 1 January 2024 and are required to be implemented together to assert compliance. Some transitional relief is provided for some requirements in the first year of adoption of the two standards. The impact of the two standards on the Bank is still being assessed.	01 January 2024

2.1 Translation of foreign currencies

(i) Transactions and balances

Foreign currency transactions are translated into the respective functional currencies of Bank's entities at exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items. Foreign exchange gains and losses on equities (debt) classified as held to collect and sell financial assets are recognised in Other Comprehensive Income(OCI) (profit or loss) whereas the exchange differences on equities and debt that are classified as held at fair value through profit or loss are reported as part of the fair value gain or loss in profit or loss.

Notes (continued)

2 Summary of material accounting policies (continued)

2.1 Translation of foreign currencies (continued)

(ii) Foreign operations

On consolidation, the assets and liabilities of foreign operations are translated into Kenya Shillings at the rate of exchange prevailing at the reporting date and their statements of profit or loss and other comprehensive income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in Other Comprehensive Income (OCI).

On the partial disposal of a foreign operation, a proportionate share of the balance of the foreign currency translation reserve is transferred to the non-controlling interests. For all other partial disposals of a foreign operation, the proportionate share of the balance of the foreign currency translation reserve is reclassified to profit or loss.

On disposal (where a change in ownership occurs and control is lost) of a foreign operation, the relevant amount in the foreign currency translation reserve is reclassified to profit or loss at the time at which the gain or loss on disposal of the foreign operation is recognised.

These gains and losses are recognised in profit or loss either on disposal of a foreign operation or partial disposal (a reduction in ownership interest in a foreign operation other than a disposal) of an associate or joint venture that includes a foreign operation.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation are translated at the closing rate. Exchange differences are recognised in OCI.

Branch ceasing hyperinflation accounting

The South Sudan economy exited hyperinflation as of 31 December 2023. The Branch discontinued the preparation and presentation of financial statements in accordance with IAS 29 as of 31 December 2023. It has treated the amounts expressed in the measuring unit current at the end of the previous reporting period ended 31 December 2022 as the basis for the carrying amounts in the financial statements for the period ended 31 December 2023.

2.2 Net interest income

Interest income and expense (with the exception of those borrowing costs that are capitalised – refer to accounting policy 2.9 – Capitalisation of borrowing costs) are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss which are included under trading income and:

a) purchased or originated credit impaired (POCI) for which the original credit adjusted effective interest rate is applied to the amortised cost of the financial asset; and

b) financial assets that are not "POCI" that have subsequently become impaired for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of expected credit losses) in subsequent reporting periods.

Notes (continued)

2 Summary of material accounting policies (continued)

2.2 Net interest income (continued)

Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial assets or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability.

Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Where the estimates of payments or receipts on financial assets or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the present value of the adjusted cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income.

When a financial asset is classified as stage 3 impaired, interest income is calculated on the amortised cost based on the original effective interest rate. The contractual interest income on the gross exposure is suspended and is only recognised in credit impairments when the financial asset is reclassified out of stage 3.

Dividends received on preference share investments classified as debt which form part of the Bank's lending activities, are included in interest income.

2.3 Non-interest revenue

a) Net fee and commission revenue

Fee and commission revenue, including transaction fees, account transaction fees, investment management fees, sales commissions, knowledge based and client administration fees, electronic banking fees, foreign service fees, documentation and administration fees, and placement fees are recognised on an accrual basis as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the Bank does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised as interest income.

The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.

Fee and commission expense included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.

Notes (continued)

2 Summary of material accounting policies (continued)

2.3 Non-interest revenue (continued)

b) Trading revenue

Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.

c) Other operating income

Other income includes gains and losses on equity instruments designated at fair value through profit or loss, dividends relating to those financial instruments, and remeasurement gains and losses from contingent consideration on disposals and purchases. Other income also includes proceeds on sale of property, plant and equipment.

d) Revenue sharing agreements with related companies

Revenue sharing agreements with related companies includes the allocation of revenue from transfer pricing agreements between the banks's legal entities. The service payer makes payment to service sellers for services rendered. All agreements of a revenue sharing nature are presented in the statement of profit or loss as follows:

- The service payer of the agreement recognises, to the extent the charge is less than revenue from the agreement, the charge to the service sellers within the statement of profit or loss line item revenue sharing agreements with related companies. To the extent that the revenue allocation to service sellers within the Bank is greater than the available revenue from the agreement, the charge above the available revenue is recognised within other operating expenses.

- The service seller of the agreements recognises, to the extent the allocation is made out of available revenue of the service payer, the revenue from the service payer within the statement of profit or loss line item revenue sharing agreements with related companies. To the extent the revenue is not received from the service payer's available revenue, such revenue is recognised as a fee and commission revenue.

2.4 Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, demand deposit as well as balances with central banks, treasury and other eligible bills and amounts due from or to banks on demand or with an original maturity of three months or less, net of amounts due to banks on demand or with an original maturity of three months or less. These are subject to insignificant risk of changes in their fair value.

Notes (continued)

2 Summary of material accounting policies (continued)

2.5 Financial instruments

(i) Initial recognition and measurement

All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the Bank commits to purchase (sell) the instruments (trade date accounting).

Financial assets

Financial assets are classified under each of the categories below and their carrying amounts are disclosed in Note 19.

	Nature	
	Amortised cost	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): ● held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and ● The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default.
	Fair value through OCI (FVOCI)	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): ● Held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and ● The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default. Equity financial assets which are not held for trading and are irrevocably elected (on an instrument-by-instrument basis) to be presented at fair value through OCI.

Notes (continued)

2 Summary of material accounting policies (continued)

2.5 Financial instruments (continued)

Financial Assets (continued)

Fair value through profit or loss (FVTPL)	Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial assets are designated to be measured at fair value to eliminate or significantly reduce an accounting mismatch that would otherwise arise.
Fair value through profit or loss - default	Financial assets that are not classified into one of the above mentioned financial asset categories.

(ii) Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classifications as follows:

Amortised cost	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through OCI (FVOCI)	Debt instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to the other gains and losses on financial instruments within non-interest revenue. Expected credit impairments losses are recognised as part of credit impairment charges. However, for these FVOCI debt instruments the expected credit loss is recognised in OCI and does not reduce the carrying amount of the financial asset in the statement of financial position. Interest income on a debt financial asset is recognised in interest income in terms of the effective interest rate method. Dividends received are recognised in interest income within profit or loss.
Fair value through profit or loss (FVTPL)	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.
Fair value through profit or loss - default	Debt instruments – Fair value gains and losses (including interest and dividends) on the financial asset recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue. Equity instruments – Fair value gains and losses on the financial asset recognised in the income statement as part of other gains and losses on financial instruments. Dividends received on equity instruments are recognised in other revenue within non-interest revenue.
Fair value through profit or loss - default	Fair value gains and losses (including interest and dividends) on other financial assets at FVTPL are recognised in the statement of profit or loss as part of other gains and losses on financial instruments within non-interest revenue.

Notes (continued)

2 Summary of material accounting policies (continued)

2.5 Financial instruments (continued)

Financial Assets (continued)

Impairment of financial assets

Expected credit losses (ECL) are recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a Significant Increase in Credit Risk (SICR) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL, is set out in the table below. ECL is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: ● default (as defined below); ● significant financial difficulty of borrower and/or modification; ● probability of bankruptcy or financial reorganisation; and ● disappearance of an active market due to financial difficulties.

The key components of the impairment methodology are described as follows:

Significant increase in credit risk	At each reporting date the Bank assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset. Credit risk of exposures which are overdue for more than 30 days are also considered to have increased significantly.
Low credit risk	Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure’s ability to fulfil its contractual obligations.

Notes (continued)

2 Summary of material accounting policies (continued)

2.5 Financial instruments (continued)

Financial Assets (continued)

Impairment of financial assets (continued)

The key components of the impairment methodology are described as follows: (continued)

Default	The Bank's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets: ● significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower); ● a breach of contract, such as default or delinquency in interest and/or principal payments; ● disappearance of active market due to financial difficulties; ● it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; ● where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Bank would not ● Exposures which are overdue for more than 90 days are also considered to be in default.
Forward-looking information	Forward-looking information is incorporated into the Bank's impairment methodology calculations and in the Bank's assessment of SICR. The Bank includes all forward looking information which is reasonable and available without undue cost or effort. The information will typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.
Write-off	Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.
ECLs are recognised within the statement of financial position as follows:	
Financial assets measured at amortised cost (including loan commitments)	Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.
Off-balance sheet exposures (excluding loan commitments)	Recognised as a provision within other liabilities.
Financial assets measured at fair value through OCI	Recognised in the fair value reserve within equity. The carrying amount of the financial asset is recognised in the statement of financial position at fair value.

Notes (continued)

2 Summary of material accounting policies (continued)

2.5 Financial instruments (continued)

Financial Assets (continued)

Reclassification

Reclassifications of debt financial assets are permitted when, and only when, the Bank changes its business model or managing financial assets, in which case all affected financial assets are reclassified. Reclassifications are accounted for prospectively from the date of reclassification as follows:

- Financial assets that are reclassified from amortised cost to fair value through profit or loss are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in other gains and losses on financial instruments;
- The fair value of a financial asset that is reclassified from fair value through profit or loss to amortised cost becomes the financial asset's new carrying amount;
- Financial assets that are reclassified from amortised cost to fair value through OCI are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in OCI;
- The fair value of a financial asset that is reclassified from fair value through OCI to amortised cost becomes the financial asset's new carrying amount with the cumulative fair value adjustment recognised in OCI being recognised against the new carrying amount;
- The carrying amounts of financial assets that are reclassified from fair value through profit or loss to fair value through OCI remains at fair value;
- The carrying amount of financial assets that are reclassified from fair value through OCI to fair value through profit or loss remains at fair value, with the cumulative fair value adjustment in OCI being recognised in profit or loss at the date of reclassification.

Financial liabilities

Financial liabilities classified under each of the categories below are disclosed under Note 19.

Nature	
Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial liabilities are designated to be measured at fair value in the following instances to eliminate or significantly reduce an accounting mismatch that would otherwise arise where; ● the financial liabilities are managed and their performance evaluated and reported on a fair value basis; and ● the financial liability contains one or more embedded derivatives that significantly modify the financial liability's cash flows.
Amortised cost	All other financial liabilities not included in the above categories.

Notes (continued)

2 Summary of material accounting policies (continued)

2.5 Financial instruments (continued)

Derecognition and modification of financial assets and liabilities

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue. Fair value, with gains and losses arising from changes in fair value (including interest and dividends but excluding fair value gains and losses attributable to own credit risk) are recognised in the other gains and losses on financial instruments as part of non-interest revenue. Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within trading revenue.
Amortised cost	Amortised cost using the effective interest method recognised in interest expense.

Financial assets and liabilities are derecognised in the following instances:

	DERECOGNITION	MODIFICATION
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Bank has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability. The Bank enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.	Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes.The terms of a financial asset 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 interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial asset.

Notes (continued)

2 Summary of material accounting policies (continued)

2.5 Financial instruments (continued)

Derecognition and modification of financial assets and liabilities (continued)

Subsequent measurement (continued)

	DERECOGNITION	MODIFICATION
Financial assets	When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors: change in currency of the loan, introduction of an equity feature, change in counterparty and whether the modification is such that the instrument would no longer meet the SPPI criterion. If the modification does not result in cash flows that are substantially different, as set out below, then it does not result in derecognition.	If the terms are not substantially different for financial assets or financial liabilities, the Bank recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	See modification for financial assets in the previous page.

Notes (continued)

2 Summary of material accounting policies (continued)

2.5 Financial instruments (continued)

Financial guarantee contracts and loan commitments below market interest rate

A financial guarantee contract is a contract that requires the Bank (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee.

A loan commitment is described in IFRS 9 as a firm commitment to provide credit under specified terms and conditions. It is a binding promise from a lender that a specified amount of loan or line of credit will be made available to the named borrower at a certain interest rate, during a certain period and, usually, for a certain purpose. Loan commitments at a below market interest rate are initially recognised when the Bank become party to the irrevocable commitment at fair value.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit or loss) are subsequently measured at the higher of the:

- ECL calculated for the financial guarantee; or
- unamortised premium.

Derivative and embedded derivatives

A derivative is a financial instrument whose fair value changes in response to an underlying variable provided in the case if the underlying is not specific to a party to the contract, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date.

In the normal course of business, the Bank enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation, credit, commodity and equity exposures. Derivative instruments used by the Bank in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held-for-trading with all changes in fair value being recognised within trading revenue. This includes forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

In terms of IFRS 9, embedded derivatives included in hybrid instruments, where the host is a financial asset, are assessed in terms of the accounting policy on financial assets. In all other instances (being non-financial host contracts and financial liabilities), the embedded derivatives are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant Bank accounting policy. The method of recognising fair value gains and losses on derivatives designated as a hedging instrument depends on the nature of the hedging relationship.

Notes (continued)

2 Summary of material accounting policies (continued)

2.5 Financial instruments (continued)

Financial guarantee contracts (continued)

Sale and repurchase agreements and lending of securities

Securities sold subject to linked repurchase agreements (Repos) are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under deposit and current accounts or trading liabilities, as appropriate.

Securities purchased under agreements to resell (reverse repurchase agreements), at either a fixed price or the purchase price plus a lender's rate of return, are recorded as loans and included under trading assets or loans and advances, as appropriate.

For repurchase and reverse repurchase agreements measured at amortised cost, the difference between the purchase and sales price is treated as interest and amortised over the expected life using the effective interest method.

Securities lent to counterparties are retained in the annual financial statements. Securities borrowed are not recognised in the annual financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability.

Income and expenses arising from the securities borrowing and lending business are recognised over the period of the transactions.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously.
The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the counterparties to the transaction.
Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

2.6 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions.

When a price for an identical asset or liability is not observable, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Notes (continued)

2 Summary of material accounting policies (continued)

2.6 Fair value (continued)

In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at measurement date.

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs.

Day one profit or loss is deferred where the fair value of the financial instrument cannot be evidenced by comparison with other observable current market transactions in the same instrument, or determined using valuation models that utilise non-observable market data as inputs. The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Subsequent to initial recognition, fair value is measured based on quoted market prices or dealer price quotations for the assets and liabilities that are traded in active markets and where those quoted prices represent fair value at the measurement date.

If the market for an asset or liability is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market related discount rate at the reporting date for an asset or liability with similar terms and conditions.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

The Bank has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits a group of financial assets and financial liabilities to be measured at fair value on a net basis. This election is applied where the Bank:

- manages the group of financial assets and financial liabilities on the basis of the Bank's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Bank's documented risk management or investment strategy;
- provides information on that basis about the group of financial assets and financial liabilities to the bank's key management personnel; and
- is required to or has elected to measure those financial assets and financial liabilities at fair value at the end of each reporting period.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Notes (continued)

2 Summary of material accounting policies (continued)

2.7 Property and equipment

Equipment and owner-occupied properties, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the bank and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised profit or loss as incurred.

Owner-occupied properties are held for use in the supply of services or for administrative purposes.

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. Land is not depreciated. Leasehold buildings are depreciated over the shorter of the lease period or their useful lives. Depreciation starts when the asset is in location and condition as intended by management.

The revaluation reserve in equity arose from revaluation of the Stanbic Bank, Chiromo Road office at the point where CfC Bank and Stanbic Bank merged.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

The estimated useful lives of tangible assets are typically as follows;

Class	Depreciation period
Buildings	40 years
Motor vehicles	4-5 years
Computer equipment	3-5 years
Office equipment	5-10 years
Furniture and fittings	5-13 years

Work-in-progress is not depreciated

There has been no significant change to the estimated useful lives and depreciation methods from those applied in the previous financial year.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the item is included in profit or loss in the year the asset is derecognised.

The assets' residual values, useful lives and the depreciation method applied are reviewed, and adjusted prospectively if appropriate, at each financial year end.

Notes (continued)

2 Summary of material accounting policies (continued)

2.8 Intangible assets – computer software

Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with unique system, which will be controlled by the bank and have probable future economic benefits beyond one year, are recognised as intangible assets. Capitalisation is further limited to development costs where the bank is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, and the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development. Direct costs include software development costs, employee costs and an appropriate portion of relevant overheads.

Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (2 to 10 years) from the date that the assets are available for use, and are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if necessary.

2.9 Capitalisation of borrowing costs

Borrowing costs that relate to qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value, are capitalised. All other borrowing costs are recognised in profit or loss. Borrowing costs consist of interest and other costs that an entity incurred in connection with the borrowing of funds.

Notes (continued)

2 Summary of material accounting policies (continued)

2.10 Impairment of non-financial assets

Non-financial assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Fair value less costs ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (CGUs). Impairment test can also be performed on a single asset when the fair value less costs of development or the value in use can be determined reliably. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Property and equipment see note 30 (a) and note 2.7
- Intangible assets see note 31 and note 2.8
- Disclosure on significant assumptions, see note 3
- Right-of-use assets -land (leasehold land), see note 30(b)
- Right-of-use assets (buildings), see note 30(b)

2.11 Accounting for leases

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

The Bank as a lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the bank recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option if the bank is reasonably certain to exercise that option and payment of penalties for terminating the lease, if the lease term reflects the bank terminating the lease. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the bank's incremental borrowing rate is used.

For leases that contain non-lease components, the bank allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

Notes (continued)

2 Summary of material accounting policies (continued)

2.11 Accounting for leases (continued)

The Bank as a lessee (continued)

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently, the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the bank at the end of the lease term, the estimated useful life would not exceed the lease term.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

Termination of leases

When the Bank or lessor terminates or cancels a lease, the right of use asset and lease liability are derecognised. On derecognition of the right of use asset and lease liability, any difference is recognised as a derecognition gain or loss in profit or loss.

Reassessment and modification of leases

When the Bank reassesses the terms of any lease (i.e. it re-assesses the probability of exercising an extension or termination option) or modifies the terms of a lease without increasing the scope of the lease or where the increased scope is not commensurate with the stand-alone price, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the applicable rate at the date of reassessment or modification. The carrying amount of lease liability is similarly revised when the variable element of future lease payments dependent on a rate or index is revised.

For reassessments to the lease terms, an equivalent adjustment is made to the carrying amount of the right of use asset, with the revised carrying amount being depreciated over the revised lease term. However, if the carrying amount of the right of use asset is reduced to zero any further reduction in the measurement of the lease liability is recognised in profit or loss.

Notes (continued)

2 Summary of material accounting policies (continued)

2.12 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The increase in provision due to passage of time is recognised as an expense.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole.

Provisions for legal claims are recognised on a prudent basis for the estimated cost for all legal claims that have not been settled or reached conclusion at the reporting date. In determining the provision management considers the probability and likely settlement (if any). Reimbursements of expenditure to settle the provision are recognised when and only when it is virtually certain that the reimbursement will be received.

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the bank recognises any impairment loss on the assets associated with that contract.

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the Bank, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Bank’s control.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit.

Contingent liabilities are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are remote.

Notes (continued)

2 Summary of material accounting policies (continued)

2.13 Taxation

(i) Direct tax

Current tax includes all domestic and foreign taxes based on taxable profits and capital gains tax. Current tax is determined for current period transactions and events and deferred tax is determined for future tax consequences. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI.

Current tax represents the expected tax payable on taxable income 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.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred 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 at the reporting date.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. They are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and
- investments in subsidiaries, associates and jointly controlled arrangements (excluding mutual funds) where the Bank controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and 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 liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and 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 liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(ii) Indirect tax

Indirect taxes, including non-recoverable VAT, skills development levies and other duties for banking activities, are recognised in profit or loss and included in administrative expenses.

Notes (continued)

2 Summary of material accounting policies (continued)

2.14 Employee benefits

(i) Defined contribution plans

The Bank operates a number of defined contribution plans, based on a percentage of pensionable earnings funded by both employer and employees, the assets of which are generally held in separate trustee-administered funds.

Contributions to these plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

The Bank and its employees also contribute to the National Social Security Fund, these contributions are determined by local statutes and the Bank's contributions are charged to profit or loss in the year which they relate to.

(ii) Termination benefits

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

(iii) Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.

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 plans or accumulated leave if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.15 Dividends

Dividends in ordinary shares are charged to equity in the period in which they are declared.

2.16 Equity

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' in equity.

(i) Share issue costs

Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other issue costs are expensed.

2.17 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary share shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential shares, if any.

Notes (continued)

2 Summary of material accounting policies (continued)

2.18 Equity-linked transactions

Equity compensation plans

The Bank operates both equity-settled and cash-settled share-based compensation plans.

The fair value of equity-settled share options is determined on the grant date and accounted for as staff costs over the vesting period of the share options, with a corresponding increase in the share-based payment reserve. Non-market vesting conditions, such as the resignation of employees and retrenchment of staff, are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against profit or loss and equity over the remaining vesting period.

On vesting of share options, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. On exercise of equity-settled share options, proceeds received are credited to share capital and premium.

Share-based payments settled in cash are accounted for as liabilities at fair value until settled. The liability is recognised over the vesting period and is revalued at every reporting date and on settlement. Any changes in the liability are recognised in profit or loss.

Cash based share settlement expense is recognised in staff costs.

2.19 Segment reporting

An operating segment is a component of the Bank engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The Bank’s identification of segments and the measurement of segment results is based on the Bank’s internal reporting to the chief operating decision makers, comprising of the executive committee.

Transactions between segments are priced at market-related rates.

2.20 Fiduciary activities

The Bank commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the Bank. However, fee income earned and fee expenses incurred by the Bank relating to the Bank’s responsibilities from fiduciary activities are recognised in profit or loss.

Notes (continued)

2 Summary of material accounting policies (continued)

2.21 Hyperinflation

The South Sudan economy was classified as hyperinflationary from 1 January 2016. Accordingly, the results, cash flows and financial position of Stanbic South Sudan Branch have been expressed in terms of the measuring unit current at the reporting date.

As the presentation currency of the Bank is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level or exchange rates in the current year. The prior period adjustments related to non-monetary items and differences arising on translation of comparative amounts are accounted for directly in retained earnings.

The carrying amounts of non-monetary assets and liabilities are adjusted to reflect the change in the general price index from the date of acquisition to the end of the reporting year. On initial application of hyperinflation, prior year gains and losses are recognised directly in equity. Gains or losses on the net monetary position are recognised in profit or loss. All items recognised in the income statement are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred.

At the beginning of the first year of application, the components of equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose. These restatements are recognised directly in equity as an adjustment to opening retained earnings. Restated retained earnings are derived from all other amounts in the restated statement of financial position. At the end of the first year and in subsequent years, all components of equity are restated by applying a general price index from the beginning of the year or the date of contribution, if later. All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting year.

Gains or losses on the net monetary position are recognised in profit or loss within trading revenue (Note 10).

The South Sudan economy exited hyperinflation as of 31 December 2023. The Branch discontinued the preparation and presentation of financial statements in accordance with IAS 29 as of 31 December 2023. It has treated the amounts expressed in the measuring unit current at the end of the previous reporting period 31 December 2022 as the basis for the carrying amounts in the financial statements for the period ended 31 December 2023.

2.22 Letters of Credit Acceptances

Letters of credit acceptances arise in two ways:

(i) Issuing Bank

At initial recognition where the Bank is the issuing bank, it recognises a contingent liability for the amount that it may be required to pay out to the confirming bank or beneficiary should the terms and conditions underlying the contract be met.

On the date that all terms and conditions underlying the contract are met, the Bank records a financial asset (at fair value) on the statement of financial position as part of loans and advances for the contractual right to receive cash from the applicant. Concurrently, the Bank recognises a financial liability (at fair value) on the statement of financial position as part of deposits for the contractual obligation to deliver cash to the beneficiary or the confirming bank, depending on the structure of the arrangement.

Notes (continued)

2 Summary of material accounting policies (continued)

2.22 Letters of Credit Acceptances (continued)

(ii) Confirming Bank

At initial recognition where the Bank is the confirming bank, it recognises the amount that it may be required to pay out to the beneficiary should the terms and conditions underlying the contract be met. The Bank concurrently records a contingent asset for the amount that the issuing bank may be entitled to receive.

On the date that all terms and conditions underlying the contract are met the Bank recognises a financial asset (at fair value) on the statement of financial position as part of loans and advances for the contractual right to receive cash from the issuing bank and concurrently recognises a financial liability (at fair value) on the statement of financial position as part of deposits for the contractual obligation to deliver cash to the beneficiary.

2.23 Consolidation

Subsidiaries

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

Acquisition-related costs are expensed as incurred.

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

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

Notes (continued)

2 Summary of material accounting policies (continued)

2.23 Consolidation (continued)

Subsidiaries (continued)

Changes in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries

When the Bank ceases to have control, any retained interest in the entity is measured to its fair value at the date when control is lost, with any resulting gain or loss recognised in profit or loss.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Bank had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

3 Critical accounting estimates and judgements in applying accounting policies

In preparing the financial statements, estimates and judgements are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances.

Unless otherwise stated, no material changes to assumptions have occurred during the year.

3.1 Going concern

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

3.2 Impairment of financial assets carried at fair value through OCI (FVOCI)

The Bank reviews its debt securities classified as FVOCI at each reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and advances.

3.3 Impairment of financial assets at amortised cost

The Bank reviews its debt securities classified as financial assets at amortised cost at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.4 Fair value of financial instruments

In terms of IFRS, the Bank is either required to or elects to measure a number of its financial assets and financial liabilities at fair value, being the price that would, respectively, be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities. Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. Information obtained from the valuation of financial instruments is used to assess the performance of the group and, in particular, provides assurance that the risk and return measures that the group has taken are accurate and complete.

Valuation process

The Bank's valuation control framework governs internal control standards, methodologies and procedures over its valuation processes, which include:

Prices quoted in an active market:The existence of quoted prices in an active market represents the best evidence of fair value. Where such prices exist, they are used in determining the fair value of financial assets and financial liabilities.

Valuation techniques: Where quoted market prices are unavailable, the Bank establishes fair value using valuation techniques that incorporate observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices, for such assets and liabilities. Parameter inputs are obtained directly from the market, consensus pricing services or recent transactions in active markets, whenever possible. Where such inputs are not available, the group makes use of theoretical inputs in establishing fair value (unobservable inputs). Such inputs are based on other relevant input sources of information and incorporate assumptions that include prices for similar transactions, historic data, economic fundamentals, and research information, with appropriate adjustments to reflect the terms of the actual instrument being valued and current market conditions. Changes in these assumptions would affect the reported fair values of these financial instruments. Valuation techniques used for financial instruments include the use of financial models that are populated using market parameters that are corroborated by reference to independent market data, where possible, or alternative sources, such as, third-party quotes, recent transaction prices or suitable proxies. The fair value of certain financial instruments is determined using industry standard models such as, discounted cash flow analysis and standard option pricing models. These models are generally used to estimate future cash flows and discount these back to the valuation date. For complex or unique instruments, more sophisticated modelling techniques may be required, which require assumptions or more complex parameters such as correlations, prepayment spreads, default rates and loss severity.

Valuation adjustments: Valuation adjustments are an integral part of the valuation process. Adjustments include, but are not limited to: credit spreads on illiquid issuers; implied volatilities on thinly traded instruments; correlation between risk factors; prepayment rates; other illiquid risk drivers.

In making appropriate valuation adjustments, the Bank applies methodologies that consider factors such as bid-offer spreads, liquidity, counterparty and own credit risk. Exposure to such illiquid risk drivers is typically managed by:

- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver
- raising day one profit or loss provisions in accordance with IFRS
- quantifying and reporting the sensitivity to each risk driver
- limiting exposure to such risk drivers and analysing exposure on a regular basis.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.4 Fair value of financial instruments (continued)

Valuation process (contined)

Validation and control: All financial instruments carried at fair value, regardless of classification, and for which there are no quoted market prices for that instrument, are fair valued using models that conform to international best practice and established financial theory. These models are validated independently by the Bank's model validation unit and formally reviewed and approved by the market risk methodologies committee. This control applies to both off-the-shelf models, as well as those developed internally by the group. Further, all inputsinto the valuation models are subject to independent price validation procedures carried out by the group's market risk unit. Such price validation is performed on at least a monthly basis, but daily where possible given the availability of the underlying price inputs. Independent valuation comparisons are also performed and any significant variances noted are appropriately investigated. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to model, are carefully validated and tabled at the monthly price validation forum to ensure that these are reasonable and used consistently across all entities in the group. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed on a monthly basis at the market risk and asset and liability committees.

Portfolio exception: The Bank has, on meeting certain qualifying criteria, elected the portfolio exception which allows an entity to measure the fair value of certain groups of financial assets and financial liabilities on a net basis similar to how market participants would price the net risk exposure at the measurement date.

No change in fair value estimated using valuation techniques not based on observable market data was recognised in profit or loss for the year ended 31 December 2023 (2022: KShs nil).

Additional disclosures on fair value measurements of financial instruments are set out in notes 2.6 and 5.

3.5 Development costs

The Bank capitalises software development costs for an intangible assets in accordance with the accounting policy detailed in note 2.8. Initial capitalisation of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone and where the Bank is able to demonstrate its intention and ability to complete and use the software.

3.6 Share-based payment

The Bank has a number of cash and equity-settled share incentive schemes which are issued to qualifying employees based on the rules of the schemes. The Bank uses the Black-Scholes option pricing model to determine the fair value of awards on grant date for its equity-settled share incentive schemes. The valuation of the Bank's obligation with respect to its cash-settled share incentive scheme obligations is determined with reference to the SBG share price, which is an observable market input. In determining the expense to be recognised for both the cash and equity-settled share schemes, the Bank estimates the expected future vesting of the awards by considering staff attrition levels. The Bank also makes estimates of the future vesting of awards that are subject to non-market vesting conditions by taking into account the probability of such conditions being met. Refer to note 43 for further details regarding the carrying amount of the liabilities arising from the Bank's cash-settled share incentive schemes and the expenses recognised in profit or loss.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.7 Income taxes

The Bank is subject to direct taxation in two jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Bank recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in notes 34 and note 35, respectively, in the period in which such determination is made.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Management's judgement surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable differences and on-going developments will determine the recognition of deferred tax. The most significant management assumption is the forecasts used to support the probability assessment that sufficient taxable profits will be generated by the entities in the bank in order to utilise the deferred tax assets.

Note 34 summarises the details of the carrying amount of the deferred tax assets. Accounting policy 2.13 provides further detail regarding the Bank's deferred tax accounting policy.

3.8 Hyperinflation

The Bank exercises significant judgement in determining the onset of hyperinflation in countries in which it operates and whether the functional currency of its branches is the currency of a hyperinflationary economy.
Various characteristics of the economic environment of each country are taken into account. These characteristics include, but are not limited to, whether:

- The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign
- Prices are quoted in a relatively stable foreign currency;
- Sales or purchase prices take expected losses of purchasing power during a short credit period into
- Interest rates, wages and prices are linked to a price index; and
- The cumulative inflation rate over three years is approaching, or exceeds, 100%.

The South Sudan economy exited hyperinflation as of 31 December 2023. The branch discontinued the preparation and presentation of financial statements in accordance with IAS 29 as of 31 December 2023. It has treated the amounts expressed in the measuring unit current at the end of the previous reporting period 31 December 2022 as the basis for the carrying amounts in the financial statements for the period ended 31 December 2023.

The general price indices used in adjusting the 2022 results, cash flows and financial position of the branch is set out in the table below.
The general price index used as published by the National Bureau of Statistics of South Sudan is as follows:

Date	Base year	General price	Inflation rate
31 December 2022	2021	7,505.94	87.51%
31 December 2021	2020	10,507.09	112.67%

The impact of adjusting the Bank's 2022 results for effects of hyperinflation is set out below:

	2023 KShs. million	2022 KShs. million
Impact on statement of profit or loss		
Profit for the year before hyperinflation	-	9,021
Net monetary gain/(loss) (Note 10)*	-	68
Profit for the year after hyperinflation	**-**	**9,089**

** The gain/(loss) in monetary value arises out of restatement of non-monetary assets and liabilities in the statement of financial position of the South Sudan Branch.*

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.9 Provisions

During the current reporting period models have been enhanced, but, no material changes to assumptions have occurred. The operating environment placed considerable strain on our operations specifically retail, business and corporate clients, however, the Bank's risk appetite remained unchanged. As such the significant increase in credit risk (SICR) and default assumptions, thresholds and/or triggers were not amended.

The accounting policy for provisions is set out in accounting policy 2.12. The principal assumptions taken into account in determining the value at which provisions are recorded at, in the bank's statement of financial position, include determining whether there is an obligation as well as assumptions about the probability of the outflow of resources and the estimate of the amount and timing for the settlement of the obligation.

The probability of an event of a significant nature occurring will be assessed by management and, where applicable, consultation with the Bank's legal counsel. In determining the amount and timing of the obligation once it has been assessed to exist, management exercises its judgement by taking into account all available information, including that arising after the reporting date up to the date of the approval of the financial statements.

3.10 Expected credit loss (ECL) on financial assets - IFRS 9 drivers

During the current reporting period models have been enhanced but no material changes to assumptions have occurred.

In preparing the financial statements, estimates and assumptions are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of future events. During the current reporting period, models have been enhanced, but, no material changes to assumptions have occured.
The following represents the most material key management assumptions applied in preparing these financial statements.

Personal and Private Banking (PPB) and Business and commercial Banking clients (BCB)

- The ECL measurement period at a minimum, is equal to the 12-month ECL of the financial asset or for the remaining tenor of the financial asset if the remaining lifetime is less than 12 months.
- A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
- The impact of the lifetime loss given default (LGD) workout, being an increase in the lifetime period over which subsequent cures and re-defaults are considered.
- The IFRS 9 requirement to hold ECL on unutilised loan commitments, notably pertaining to PPB and BCB's card and other lending portfolios.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.10 Expected credit loss (ECL) on financial assets - IFRS 9 drivers (continued)

Corporate and Investment Banking (CIB)

- The ECL measurement period at a minimum, is equal to the 12-month ECL of the financial asset or for the remaining tenor of the financial asset if the remaining lifetime is less than 12 months.
- A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
- The requirement to hold ECL on unutilised loan commitments has been included, where appropriate, within this classification.

Treasury

For debt securities in the treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PDs associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency. Refer to 4.2.4 (b) for Bank's rating method.

Significant increase in credit risk (SICR) and low credit risk

A lifetime ECL requirement for all exposures for which there has been SICR. This included the impact of the LGD work out, being an increase in the life time period over which subsequent cures and re-defaults are considered. The requirement to hold ECL on off-balance sheet exposures has been included where appropriate within this classification.

To determine whether a client's credit risk has increased significantly since origination, the Bank would need to determine the extent of the change in credit risk using the table below:

Bank's master rating scale	SICR trigger (from origination)
SB 1 – 12	Low credit risk
SB 13 – 20	3 rating or more
SB 21 – 25	1 rating or more

Personal and Private Banking (PPB) and Business and Commercial Banking (BCB)

In accordance with IFRS 9, all exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised. SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and, consequently, reflect an increase in credit risk.

The Bank also determines an appropriate transfer rate of exposures from stage 1 to stage 2 by taking into account the expected levels of arrears status for similar exposures. The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR throughout the life of the exposure and consequently facilitate appropriate impairment coverage.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.10 Expected credit loss (ECL) on financial assets - IFRS 9 drivers (continued)

Significant increase in credit risk (SICR) and low credit risk (continued)

PPB and BCB

Where behaviour scores are not available, historical levels of delinquency are applied in determining whether there has been SICR. For all exposures, IFRS 9's rebuttable presumption of 30 days past due as well as exposures classified as either debt review or as 'watch-list' are used to classify exposures within stage 2.

Forward looking economic expectations are included in the ECL by adjusting the probability of default (PD), LGD and SICR. Adjustments are made based on the Bank's macro-economic outlook, using models that correlate these parameters with macro-economic variables. Where modelled correlations are not viable or predictive, adjustments are based on expert judgement to predict the outcomes based on the Bank's macro-economic outlook expectations.

CIB

The Bank uses a 25-point master rating scale to quantify the credit risk for each exposure. On origination, each client is assigned a credit risk grade within the bank's 25-point master rating scale. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data for the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

CIB exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2. These pre-defined ratings' migration thresholds have been determined based on historic default experience which indicate that higher rated risk exposures are more sensitive to SICR than lower risk exposures. Based on an analysis of historic default experience, exposures that are classified by the bank's master rating scale as investment grade are assessed for SICR at each reporting date but are considered to be of a low credit risk for IFRS 9 purposes.

Forward looking economic expectations are incorporated in CIB's client ratings. The client rating thus reflects the expected client risk for the Bank's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECL representative of existing market conditions.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.10 Expected credit loss (ECL) on financial assets - IFRS 9 drivers (continued)

Significant increase in credit risk (SICR) and low credit risk (continued)

Forward looking expectations

- The Bank's Economic Research team determines the macroeconomic outlook and a Bank view of commodities over a planning horizon of at least three years. The outlook is provided to the Bank's Chief Financial & Value Officer for review and asset and liability committee for approval.
- Macroeconomic outlooks take into account various variables such as gross domestic product, Central Bank policy interest rates, inflation, exchange rates and treasury bill rates.
- Narratives for each of the country economic outlooks, being bear, base and bull cases, are compiled and typically include consideration of the country's economic background, sovereign risk, foreign exchange risk, financial sector, liquidity and monetary policy stance.
- Probabilities are assigned to each of the bear, base and bull cases based on primary macroeconomic drivers and are reviewed monthly.
- The forward looking economic expectations are updated on a bi-annual basis or more regularly when deemed appropriate.

Main macroeconomic factors

The following table shows the main macroeconomic factors used to estimate the forward-looking impact on the ECL provision of financial assets. Each scenario, namely base, bear and bull scenario, is presented for each identified time period.

	31 December 2023			31 December 2022		
Macroeconomic factors	Base	Bear	Bull	Base	Bear	Bull
Inflation	7.4	8.1	7.0	6.9	8.3	5.5
Policy rate	10.5	11.0	10.0	8.0	9.0	7.5
3m Tbill rate	16.1	18.1	14.1	8.2	7.7	8.8
6m Tbill rate	16.2	18.8	15.0	9.4	8.7	10.2
Exchange rate (USD/KES)	156.2	161.0	153.5	120.1	121.6	117.9
Real GDP	5.5	4.1	6.9	3.7	1.4	6
Sovereign rating	B	B	B	B	B	B

PPB and BCB
Adjustments to the PD and LGD, based on forward looking economic expectations at the reporting date resulted in the requirement to hold higher credit impairments.

CIB
Negligible impact as CIB's client ratings typically included forward looking expectations.

Lifetime LGD work out
Increased lifetime period over which subsequent cures and re-defaults are considered resulted in higher credit impairments for credit-impaired financial assets.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.10 Expected credit loss (ECL) on financial assets - IFRS 9 drivers (continued)

Significant increase in credit risk (SICR) and low credit risk (continued)

Write off policy

An impaired loan is written off once all reasonable attempts at collection have been made and there is no economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

- the financial asset has been in default for the period defined for the specific product (i.e. vehicle and asset finance, mortgage loans, etc.) which is deemed sufficient to determine whether the entity is able to receive any further economic benefit from the impaired loan; and
- at the point of write-off, the financial asset is fully impaired (i.e. 100% allowance) with the expectation that the probability of recovery is nil and this probability is not expected to change in the future.

As an exception to the above requirements, where the exposure is secured (or for collateralised structures), the impaired loan can only be written off once the collateral has been realised. Post-realisation of the collateral, the shortfall amount can be written off if it meets the second requirement listed above. The shortfall amount does not need to meet the first requirement to be written off.

Partial write-off of an asset occurs when the Bank gives a concession to a debtor such that a part of the loan will not be recovered. In this case, the part that will not be recovered is written off.

For CIB products, write-offs are assessed on a case-by-case basis and approved by CIB credit governance committee based on the individual facts and circumstances.

Curing

Continuous assessment is required to determine whether the conditions that led to a financial asset being considered to be credit impaired (i.e. stage 3) still exist. Distressed restructured financial assets that no longer qualify as credit impaired remain within stage 3 for a minimum period of six months (i.e. six full consecutive monthly payments per the terms and conditions). However, in the case of financial assets with quarterly or longer dated repayment terms, the classification of a financial asset out of stage 3 may be made subsequent to an evaluation by the Bank’s CIB or PPB and BCB Credit Governance Committees (as appropriate), such evaluation will take into account qualitative factors in addition to compliance with payment terms and conditions of the agreement. Qualitative factors include compliance with covenants and compliance with existing financial asset's terms and conditions.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.10 Expected credit loss (ECL) on financial assets - IFRS 9 drivers (continued)

Curing (continued)

Where it has been determined that a financial asset no longer meets the criteria for significant increase in credit risk, when compared to the credit rating at initial recognition, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively. In retail portfolios, a rehabilitation period of at least 6 months (subsequent to a customer repaying all outstanding facilities) would be needed for the customer's internal rating to decrease back to its rating scale at initial recognition and move from stage 2 to stage 1 accordingly.

Off-balance sheet exposures – bankers' acceptances, guarantees and letters of credit

The requirement to hold ECL on off-balance sheet financial instruments, such as guarantees and letters of credit, resulted in a requirement to hold additional credit impairment provisions which were not held in terms of IAS 39.

Out of the above factors that drive the ECL, the most significant source of uncertainty is credit ratings allocated to counterparties which drive this assigned probability of default. The PDs in turn incorporate assessment for significant increase in credit risk, default risk assessment, forward looking information and probability weighted scenarios. At 31 December 2023, had the average credit ratings for all counterparties shifted one notch down expected credit losses would have increased by KShs 161,112,115 (2022: KShs 348,635,369) higher where if the credit ratings had improved by one notch the expected credit losses would have decreased by KShs 306,799,878 (2022: KShs 356,280,064).

Credit impairment losses on loans and advances

Specific loan impairments

Non-performing loans include those loans for which the Bank has identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Where the net present value of estimated cash flows to differ by +/-1%, the impairment loss is to be estimated at KShs 97,255,000 higher or KShs 97,255,000 lower (2022: KShs 126,216,271 higher or KShs 126,216,271 lower) respectively.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.11 Climate-related emerging risks

The Bank’s activities give rise to climate-related risks and opportunities, in respect of the Bank’s own operations and, more significantly, in respect of financed emissions across its client portfolio.

Governance

In 2022, the Bank fully adopted the Central Bank of Kenya climate risk guidelines, developed and adopted a climate risk policy that details the Bank's commitments and aspirations. The Bank enhanced its internal governance structures and capacity to incorporate global best practices on Environmental, Social and Goverance (ESG) and Climate Risk management as well incorporated climate risks in the internal capital adequacy assessment and stress testing processes. The Bank's sustainability unit is responsible for;

- Overseeing implementation of the Climate Policy
- Reviewing outputs of internal and regulatory climate risk stress test and related risk matters
- Assessing executive performance in relation to climate policy commitments and targets

The Climate Policy is designed as a roadmap to reducing exposures to businesses in sectors that are vulnerable to sector-specific climate commitments and targets. The policy will also inform the Bank’s decision-making around identifying opportunities to deliver sustainable solutions that support a just transition in jurisdictions of operations (Kenya and South Sudan).

The Bank's risk management committee, chaired by the Chief Risk Officer, oversees financial and non-financial related risk, including climate-related risk, and is responsible for overseeing the embedment of climate-related risk-identification, classification, analysis, monitoring and reporting in the enterprise-wide risk management system.

Strategy

The Bank supports a just transition that seeks to achieve the imperative for environmental sustainability in a manner that creates work opportunities and social inclusion, and acknowledges Kenya’s and South Sudan's contribution to global emissions. The Bank plans to reduce its financed emissions intensity while responsibly managing its exposure to fossil fuels, specifically where there is an energy transition roadmap that supports cleaner fuels.

Risk management

The Bank’s preliminary credit portfolio risk assessments on sectors the Bank has defined as being more vulnerable to physical and transition risks have informed the setting of the Bank’s Climate Policy and its understanding of climate risks in portfolios, including the following examples:

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.11 Climate-related emerging risks (continued)

Transition risks

- Exposure to policy risk over the medium to long term associated with uncertain long-term demand for fossil fuels, especially coal, and other high emitting sectors. Key drivers for this risk include expected policy actions such as more onerous carbon-pricing regulations to limit emissions on business activities. Such action could lead to higher risks of stranded assets and the related financial risks for the group arising from an impairment in value of clients' operating assets pledged as collateral and leading therefore to an increase in the probability risk of client defaults.

- Market risk primarily over the short to medium term related to changing client expectations for greener products and services, potentially impacting on some of our clients' future business opportunities. Likewise, expectations from investors will also adjust to an appetite for lower financed emissions, applying pressure on the Bank to align with low emissions pathways.

- Higher reputational risk including in the immediate short term negative stakeholder sentiment and adverse media coverage related to support of projects or activities with negative impacts on the climate, including oil and gas related infrastructure projects.

Physical risks

Acute physical risks such as more frequent and more intense extreme weather events, pose a risk to the Bank's own operations and those of its customers in sectors the Bank has identified as being vulnerable, including agriculture and others. Chronic physical risks such as rising average temperatures and changing precipitation patterns over the medium to long term, that lead to heat stress, droughts, higher wildfire risks and water shortages, may impact the Bank's clients in affected sectors including mining, industrial, manufacturing and agriculture through water shortages, labour productivity, economic output and occupational health.

Opportunities

The Bank continues to work with its clients and partners to help them address their climate impacts, lower their emissions and improve their resilience. The Bank continues to expand its offering of sustainability linked lending solutions, green and social bonds.

Notes (continued)

4 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risks
- Operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk and the Bank's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established various committees, including the Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring 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 of the Bank on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit and Risk Committees are responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Committees are assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

By their nature, the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. The Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units.

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-statement of financial position loans and advances; the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Bank also trades in financial instruments where it takes positions in traded and over-the-counter instruments to take advantage of short-term market movements in bonds price, currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Notes (continued)

4 Financial risk management (continued)

Foreign exchange and interest rate exposures associated with derivatives are normally offset by entering into counter-balancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

4.1 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

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

It uses two approaches of measuring capital for capital management.

a) Economic capital assessment

Economic capital is the Bank's internal measure of required capital and it incorporates granular risk assessments and portfolio concentration effects that may be absent from the regulatory capital assessment process. The bank aggregates the individual risk type economic capital measurements conservatively assuming no inter-risk diversification. Economic capital is compared to Available Financial Reserves (AFR) to perform an assessment of capital adequacy based on internal measures.

b) Regulatory capital assessment

The Bank monitors the adequacy of its capital using ratios established by the Central Bank of Kenya (CBK), which ratios are broadly in line with those of the Bank for International Settlements (BIS).

These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The risk-based approach applies to both on and off-statement of financial position items. The focus of this approach is credit risk, interest rate risk, market risk, operational risk, concentration risk and underlying collateral risk.

The assets are weighted according to broad categories, each being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 35%, 50%, and 100%) are applied.

The Bank is required at all times to maintain:

- A minimum level of regulatory capital of KShs 1 billion as at 31 December 2023 (2022: Kshs 1 billion);
- A core capital (tier 1) of not less than 10.5% (2022: 10.5%) of total risk weighted assets plus risk weighted off-statement of financial position items;
- A core capital (tier 1) of not less than 8% (2022: 8%) of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 14.5% (2022: 14.5%) of its total risk weighted assets plus risk adjusted off statement of financial position items.

Notes (continued)

4 Financial risk management (continued)

4.1 Capital management (continued)

Off-balance sheet credit related commitments and forwards are converted to credit risk equivalents using credit conversion factors, designed to convert these items into statement of financial position equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets.

Tier 1 capital consists of shareholders' equity comprising paid up share capital, share premium and retained earnings less intangible assets, goodwill and investments in subsidiary institutions and equity instruments of other institutions. Tier 2 capital includes the Bank's term subordinated debt and regulatory loan loss reserves and cannot exceed tier 1 capital. Regulatory loan loss reserves qualifying as tier 2 capital cannot exceed 1.25% of the risk weighted assets total value.

The Bank has complied with these requirements. The Bank's capital adequacy level was as follows:

	2023 KShs. million	2022 KShs. million
Tier 1 capital (Core capital)		
Share capital	3,412	3,412
Share premium	3,445	3,445
Retained earnings	47,119	42,388
Less: Deferred tax asset (deductible)	(3,865)	(2,296)
Total Tier 1 capital (Core capital)	**50,111**	**46,949**
Tier 2 capital		
Qualifying subordinate borrowings (note 39)	12,681	10,141
Regulatory credit risk reserve	1,410	-
Total Tier 2 capital	**14,091**	**10,141**
Total capital (Tier 1 + Tier 2)	**64,202**	**57,090**
Risk - weighted assets		
Operational risk	48,379	43,617
Market risk	4,081	5,579
Credit risk on-statement of financial position	287,381	247,883
Credit risk off-statement of financial position	47,075	42,528
Total risk - weighted assets	**386,916**	**339,607**
Capital adequacy ratios		
Core capital / total deposit liabilities	15.1%	16.5%
Minimum statutory ratio	**8.0%**	**8.0%**
Core capital / total risk - weighted assets	13.0%	13.8%
Minimum statutory ratio	**10.5%**	**10.5%**
Total capital / total risk - weighted assets	16.6%	16.8%
Minimum statutory ratio	**14.5%**	**14.5%**

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk

Credit risk is the risk of loss arising out of failure of client counterparties to meet their financial or contractual obligations when due.

Credit risk is composed of counterparty risk (including primary, pre-settlement risk, issuer and settlement risk) and concentration risk. These risk types are defined as follows:

- Counterparty risk: The risk of credit loss to the Bank as a result of failure by a counterparty to meet its financial and/or contractual obligations to the Bank as they fall due.

- Credit concentration risk: The risk of loss to the Bank as a result of excessive build-up of exposure to a specific counterparty or counterparty group, an industry, market, product, financial instrument or type of security, or a maturity. This concentration typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their ability to meet contractual obligations being similarly affected by changes in economic or other conditions.

4.2.1 Governance committees

The primary governance committees overseeing credit risk are the Board Credit Committee (BCC) and Credit Risk Management Committee (CRMC). These committees are responsible for credit risk and credit concentration risk decision-making, and delegation thereof to Credit officers and committees within defined parameters.

Credit risk management is governed by the Bank's overall credit policy guidelines. Respective Credit Risk Management Divisions, which report into the BCC, are responsible for the implementation of these guidelines, which cover compliance with prescribed sanctioning authority levels, avoidance of a high concentration of credit risk and regular review of credit limits. Limits on facilities to counter-parties are governed by internal restraints, which restrict large exposures in relation to the Bank's capital.

The Bank has set in place comprehensive resources, expertise and controls to ensure efficient and effective management of credit risk.

4.2.2 General approach to managing credit risk

The Bank's credit risk comprises mainly corporate and retail loans and advances, together with the counterparty credit risk arising from derivative contracts entered into with our clients and market counterparties.

The Bank manages credit risk through:

- maintaining strong culture of responsible lending and a robust risk policy and control framework;
- identifying, assessing and measuring credit risk clearly and accurately across the Bank, from the level of individual facilities up to the total portfolio;
- defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions;
- monitoring the Bank's credit risk relative to limits; and
- ensuring that there is expert scrutiny and independent approval of credit risks and their mitigation.

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.2 General approach to managing credit risk (continued)

Primary responsibility for credit risk management resides with the Bank's business lines. This is complemented with an independent credit risk function embedded within the business units, which is in turn supported by the overarching Bank risk function.

Impairment provisions are provided for losses that have been incurred or expected at reporting date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the Bank's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk.

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

4.2.3 Management reporting

A number of reports are prepared as management information on credit risk. Various analysis of the data are done and a variety of reports are prepared on a monthly and quarterly basis. Some of these reports include:

- Quarterly Board Credit Committee Report;
- Quarterly Board Audit Committee Report;
- Quarterly Board Risk Committee Report;
- Monthly Credit Risk Management Committee Report;
- Regulatory returns;
- Quarterly results; and
- Annual financial statements.

These reports are distributed to management and regulators, and are available for inspection by authorised

4.2.4 Credit risk measurement

a) Loans and advances, including loan commitments and guarantees

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.4 Credit risk measurement (continued)

a) Loans and advances, including loan commitments and guarantees (continued)

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. All models are managed under model development and validation policies that set out the requirements for model governance structures and processes, and the technical framework within which model performance and appropriateness is maintained. The models are developed using internal historical default and recovery data. In low default portfolios, internal data is supplemented with external benchmarks and studies. Models are assessed frequently to ensure on-going appropriateness as business environments and strategic objectives change, and are recalibrated semi-annually using the most recent internal data.

In measuring credit risk of loans and advances to customers and to banks at a counter-party level, the Bank reflects three components:

(i) the ‘probability of default’ by the client or counter-party on its contractual obligations;

(ii) current exposures to the counter-party and its likely future development, from which the Bank derives the ‘exposure at default’; and

(iii) the likely recovery ratio on the defaulted obligations (the ‘loss given default’).

Probability of default (PD)

The Bank uses a 25-point master rating scale to quantify the credit risk for each borrower as illustrated in the table on the following page. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable portfolio. The Bank distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making and in managing credit risk exposures.

Loss given default (LGD)

Loss given default measures are a function of customer type, product type, seniority of loan, country of risk and level of collateralisation. LGDs are estimated based on historic recovery data per category of LGD. A downturn LGD is used in the estimation of the capital charge and reflects the anticipated recovery rates and macroeconomic factors in a downturn period.

Exposure at default (EAD)

Exposure at default captures the impact of potential draw-downs against unutilised facilities and changes in counterparty risk positions due to changes in market prices. By using historical data, it is possible to estimate the average utilisation of limits of an account when default occurs, recognising that customers may use more of their facilities as they approach default.

b) Debt securities

For debt securities, external rating such as Standard & Poor’s rating or their equivalents are used by Bank Treasury for management of the credit risk exposures as supplemented by the Bank's own assessment through the use of internal rating tools.

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.4 Credit risk measurement (continued)

Relationship between the bank master rating and external ratings

Stanbic Bank Kenya Limited's internal rating scale	Moody's Investor Services	Standard & Poor's	Fitch	Grading	Credit Quality
1 - 4	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA-	AAA, AA+, AA, AA-	Investment grade	Normal monitoring
5 - 7	A1, A2, A3	A+, A, A-	A+, A, A-		
8 - 12	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-		
13 - 20	Ba1, Ba2, Ba3, B1, B2, B3	BB+, BB, BB-, B+, B, B-	BB+, BB, BB-, B+, B, B-	Sub-investment grade	
21 -25	Caa1, Caa2, Caa3, Ca	CCC+, CCC, CCC-	CCC+, CCC, CCC-		Close monitoring
Default	C	D	D	D	D

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

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

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

a) Credit tailored to customer profile

There is a clear distinction between the fundamental credit characteristics of the Bank's customer base. This customer base is managed according to the following market segments:

- Corporate and Investment Banking (CIB);
- Business and Commercial Banking (BCB); and
- Personal and Private Banking (PPB); (formerly Consumer and High Net Worth Clients (CHNW)

The Bank has established separate credit management functions for each market segment except for IAM which does not actively lend.

Corporate and Investment Banking (CIB): Corporate, sovereign and bank portfolios

Corporate, sovereign and bank borrowers include large corporates, financial institutions and international counter-parties. The entities include large companies as well as small and medium enterprises that are managed on a relationship basis. Creditworthiness is assessed based on a detailed individual assessment of the financial strength of the borrower. Exposure is usually in the form of short and long-term loans and advances but may include exposures arising from derivative contracts. In these sectors, credit risk management is characterised by a close working relationship between the counter-party, the customer relationship team and an independent credit evaluation manager. The credit evaluation manager bases his lending decision on an in-depth knowledge of the counterparty and the industry in which it operates, as well as an assessment of the creditworthiness of the counter-party based on a review of the audited financial statements and underlying risk parameters.

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

a) Credit tailored to customer profile (continued)

Corporate and Investment Banking (CIB): Corporate, sovereign and bank portfolios (continued)

CIB uses sophisticated modelling techniques combined with an in-depth knowledge and understanding of each client as essentials in properly assessing the credit risk, both initially and on an on-going basis, of each counterparty with whom it deals.

To this end CIB uses software developed by third party vendors, which is widely used by the banking industry globally in its credit management process. Expected default frequencies are an important tool in the formal credit assessment process of both new and existing business, and also form the basis for monitoring changes in counterparty credit quality on a day to day basis. Expected default frequencies will continue to be a vital component of credit risk management as the Bank continues to improve credit processes and increases focus on portfolio credit management.

Personal and Private Banking, and Business and Commercial Banking(PPB and BCB): Retail portfolio

Retail mortgage exposures relate to mortgage loans to individuals and are a combination of both drawn and undrawn EADs. Qualifying retail revolving exposure (QRRE) relate to cheque accounts, credit cards and evolving personal loans and products, and include both drawn and undrawn exposures. Retail other covers other branch lending and vehicle finance for retail, retail small and retail medium enterprise portfolios. Branch lending includes both drawn and undrawn exposures, while vehicle and asset finance only has drawn exposures.
Internally developed behavioural scorecards are used to measure the anticipated performance for each account. Mapping of the behaviour score to a PD is performed for each portfolio using a statistical calibration of portfolio-specific historical default experience. The behavioural scorecard PDs are used to determine the portfolio distribution on the master rating scale. Separate LGD models are used for each product portfolio and are based on historical recovery data. EAD is measured as a percentage of the credit facility limit and is based on historical averages. EAD is estimated per portfolio and per portfolio-specific segment, using internal historical data on limit utilisation.

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

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

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

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

c) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

d) Derivatives

For derivative transactions, the Bank typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure, where collateral support is considered necessary. Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

e) Collateral

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

Business and Commercial Banking and Personal and Private Banking (BCB & PPB)	
Mortgage lending	First ranking legal charge over the property financed.
Vehicle and asset finance	Joint registration of vehicles.
Other loans and advances	Debentures over the company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and company guarantees.
Corporate and Investment Banking	
Corporate lending	All assets debenture over the company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and company guarantees.

Longer-term finance and lending to corporate entities is generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise possible credit loss the Bank seeks additional collateral from the counter-party as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

e) Collateral (continued)

Valuation of collateral

The Bank has a panel of valuers who undertake valuation of property and other assets to be used as collateral. The valuers in the panel are qualified professional valuers with adequate experience in the field of property and machinery valuation. Valuers are required to provide the Bank with professional indemnity to cover the Bank in cases of professional negligence relating to their valuations. The Bank ensures that all properties used as collateral are adequately insured during the term of the loan. Valuation reports on properties are valid for three years after which the property and equipment is revalued.

The table on the following page shows the financial effect that collateral has on the Bank's maximum exposure to credit risk. The table includes collateral that management takes into consideration in the management of the bank's exposures to credit risk. All on- and off-balance sheet exposures that are exposed to credit risk, including non-performing loans, have been included. Collateral includes:

- Financial securities that have a tradable market, such as shares and other securities;
- Physical items, such as property, plant and equipment; and
- Financial guarantees and intangible assets.

Netting agreements, which do not qualify for offset under IFRS but which are nevertheless enforceable, are included as part of the bank's collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions.

In the retail portfolio, 79% (2022: 77%) is fully collateralized. The total average collateral coverage for all retail mortgage exposures above 50% collateral coverage category is 100% (2022: 100%). Of the Bank's total exposure, 39% (2022: 57%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities. The total amount of collateral for credit impaired loans amounted to KShs. 25,195,189,000 (2022: KShs.34,654,617,000).

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

e) Collateral (continued)

31 December 2023	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Collateral coverage - Total: Greater than 0% to 50%	Greater than 50% to 100%	Greater than 100%
Asset class	**KShs.million**	**KShs.million**	**KShs.million**	**KShs.million**	**KShs.million**	**KShs.million**	**KShs.million**	**KShs.million**
Corporate	**171,222**	48	171,174	-	**171,174**	-	171,174	-
Sovereign	**45,428**	45,428	-	-	**-**	-	-	-
Loans and advances to banks	**95,658**	**95,658**	**-**	-	**-**	-	-	-
Group	**90,542**	90,542	-	-	-	-	-	-
Other banks	**5,116**	5,116	-	-	-	-	-	-
Retail	**108,502**	**21,938**	**86,564**	**-**	**86,564**	**-**	**86,564**	**-**
Retail mortgage	**40,417**	-	40,417	-	40,417	-	40,417	-
Other retail	**68,085**	21,938	46,147	-	46,147	-	46,147	-
Total	**420,810**	**163,072**	**257,738**	**-**	**257,738**	**-**	**257,738**	**-**
Less: Impairments for loans and advances	**(19,299)**							
Total exposure	**401,511**							

31 December 2022	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Collateral coverage - Total: Greater than 0% to 50%	Greater than 50% to 100%	Greater than 100%
Asset class	**KShs.million**	**KShs.million**	**KShs.million**	**KShs.million**	**KShs.million**	**KShs.million**	**KShs.million**	**KShs.million**
Corporate	**152,721**	23,414	129,307	-	**129,307**	-	129,307	-
Sovereign	**83,551**	83,551	-	-	**-**	-	-	-
Loans and advances to banks	**30,962**	**30,962**	-	-	**-**	-	-	-
Group	**15,114**	15,114	-	-	-	-	-	-
Other banks	**15,848**	15,848	-	**-**	-	-	-	-
Retail	**103,738**	**23,433**	**80,305**	**-**	**80,305**	**-**	**80,305**	**-**
Retail mortgage	**37,831**	-	37,831	-	37,831	-	37,831	-
Other retail	**65,907**	23,433	42,474	-	42,474	-	42,474	-
Total	**370,972**	**161,360**	**209,612**	**-**	**209,612**	**-**	**209,612**	**-**
Less: Impairments for loans and advances	**(20,650)**							
Total exposure	**350,322**							

The Bank holds collateral on loans and advances. The tables above represents the collateral cover held on various types of loans and advances. Other deposits and margin balances held against off balance sheet facilities are included in other liabilities in note 38(a).

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

e) Collateral (continued)

Foreclosed collateral

Assets foreclosed as at the end of the year comprise saloon vehicles, prime movers and trailers, which had been financed by the Bank under Vehicle and Asset Finance (VAF) and residential property financed under personal markets. As at the year end, the Bank had taken possession of the following:

Nature of assets	2023 KShs. million	2022 KShs. million
Residential property	614	394
Assets financed under VAF	243	178
	857	**572**

It is the Bank's policy to dispose off foreclosed properties on the open market, at fair market value. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy foreclosed properties for business use.

Renegotiated financial assets

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified following weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure. The renegotiations resulted in the continuation of the original financial asset, with no gain or loss recognised as a consequence of the restructuring. The table below show the carrying amount of financial assets whose term have been renegotiated, by class.

	2023 KShs. million	2022 KShs. million
Vehicle and asset finance	87	180
Other loans and advances	2,606	6,946
	2,693	**7,126**

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.6 Default and provisioning policy

The Bank's definition of default has been aligned to its internal credit risk management definitions and approaches. Whilst the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the BASEL definition) as occurring at the earlier of:

- where, in the Bank's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets as per IFRS 9:

- significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower);
- a breach of contract, such as default or delinquency in interest and/or principal payments;
- disappearance of active market due to financial difficulties;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; and
- where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Bank would not otherwise consider.

Exposures which are overdue for more than 90 days are also considered to be in default.

4.2.7 Credit Quality

a) Maximum exposure to credit risk before collateral held or other credit enhancements

Financial instruments whose carrying amounts represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 22. The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both the loan and advances portfolio and debt securities based on the following:

- 66% of the total maximum exposure is derived from loans and advances to customers (2022: 69%); 11% represents investments in debt securities (2022: 23%);
- 89% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2022: 82%);
- 81% of the loans and advances portfolio are considered to be neither past due nor impaired (2022: 82%); and
- 99% of all the debt securities, which the Bank has invested in, are issued by the Central Bank of Kenya (2022: 99.8%).

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 Credit Quality (continued)

b) Credit quality by class

The table below shows the credit quality by class of loans and advances, based on the Bank's credit rating system:

Year ended 31 December 2023	Gross Carrying amount	SB 1 - 12		SB 13 - 20		SB 21- 25		Default		Total gross carrying amount of default exposures	Securities and expected recoveries on default exposures	Interest in suspense on default exposures	Statement of financial position expected credit loss on default exposures	Gross default coverage	Non-performing exposures
		Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Purchased/originated credit impaired/stage 3						
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	%	%
Loans and advances to customers															
PPB	**61,471**	**-**	**-**	**45,126**	**-**	**-**	**9,879**	**6,466**	**-**	**6,466**	**503**	**715**	**5,248**	**92%**	**11%**
Mortgage loans	**31,294**	-	-	19,245	-	-	8,030	4,019	-	4,019	2,147	418	1,454	47%	13%
Vehicle and asset finance	**3,405**	-	-	2,960	-	-	314	131	-	131	(99)	2	228	176%	4%
Card debtors	**777**	-	-	595	-	-	142	40	-	40	14	-	26	65%	5%
Other loans and advances	**25,995**	-	-	22,326	-	-	1,393	2,276	-	2,276	(1,559)	295	3,540	168%	9%
BCB	**44,973**	**-**	**-**	**25,417**	**-**	**-**	**8,214**	**11,342**	**-**	**11,342**	**7,032**	**658**	**3,652**	**38%**	**25%**
Mortgage loans	**328**	-	-	250	-	-	78	-	-	-	-	-	-	0%	0%
Vehicle and asset finance	**7,173**	-	-	5,737	-	-	598	838	-	838	662	61	115	21%	12%
Other loans and advances	**37,472**	-	-	19,430	-	-	7,538	10,504	-	10,504	6,370	597	3,537	39%	28%
CIB	**173,280**	**74,903**	**-**	**88,089**	**1,184**	**293**	**152**	**8,659**	**-**	**8,659**	**3,183**	**1,319**	**4,157**	**63%**	**5%**
Corporate	**173,280**	74,903	-	88,089	1,184	293	152	8,659	-	8,659	3,183	1,319	4,157	63%	5%
	279,724	**74,903**	**-**	**158,632**	**1,184**	**293**	**18,245**	**26,467**	**-**	**26,467**	**10,718**	**2,692**	**13,057**	**60%**	**9%**
Loans and advances to banks															
Bank	**95,658**	**83,400**	-	11,615	643	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**375,382**	**158,303**	**-**	**170,247**	**1,827**	**293**	**18,245**	**26,467**	**-**	**26,467**	**10,718**	**2,692**	**13,057**	**54%**	**7%**
Less: Total expected credit losses for loans and advances	**(19,216)**														
Net carrying amount of loans & advances measured at amortised cost	**356,166**														

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 Credit Quality (continued)

b) Credit quality by class (continued)

The table below shows the credit quality by class of loans and advances, based on the Bank's credit rating system:

Year ended 31 December 2022	Gross Carrying amount KShs. million	SB 1 - 12 Stage 1 KShs. million	SB 1 - 12 Stage 2 KShs. million	SB 13 - 20 Stage 1 KShs. million	SB 13 - 20 Stage 2 KShs. million	SB 21- 25 Stage 1 KShs. million	SB 21- 25 Stage 2 KShs. million	Default Stage 3 KShs. million	Default Purchased/originated credit impaired/stage 3 KShs. million	Total gross carrying amount of default exposures KShs. million	Securities and expected recoveries on default exposures KShs. million	Interest in suspense on default exposures KShs. million	Statement of financial position expected credit loss on default exposures KShs. million	Gross default coverage %	Non-performing exposures %
Loans and advances to customers															
PPB	**57,039**	**-**	**-**	**44,155**	**-**	**-**	**5,145**	**7,739**	**-**	**7,739**	**2,696**	**1,049**	**3,994**	**57%**	**14%**
Mortgage loans	**30,789**	-	-	23,674	-	-	3,351	3,764	-	**3,764**	2,511	432	821	30%	12%
Vehicle and asset finance	**3,227**	-	-	2,537	-	-	305	385	-	**385**	40	86	259	73%	12%
Card debtors	**722**	-	-	621	-	-	76	25	-	**25**	4	-	21	84%	3%
Other loans and advances	**22,301**	-	-	17,323	-	-	1,413	3,565	-	**3,565**	141	531	2,893	84%	16%
BCB	**46,658**	**-**	**-**	**25,836**	**-**	**-**	**11,467**	**9,355**	**-**	**9,355**	**5,617**	**470**	**3,268**	**38%**	**20%**
Mortgage loans	**7,042**	-	-	3,644	-	-	3,379	19	-	**19**	2	9	8	61%	0%
Vehicle and asset finance	**6,803**	-	-	5,264	-	-	639	900	-	**900**	246	88	566	66%	13%
Other loans and advances	**32,813**	-	-	16,928	-	-	7,449	8,436	-	**8,436**	5,369	373	2,694	35%	26%
CIB	**152,766**	**40,947**	**-**	**97,219**	**2,013**	**1,188**	**26**	**11,373**	**-**	**11,373**	**4,061**	**1,725**	**5,587**	**56%**	**7%**
Corporate	**152,766**	40,947	-	97,219	2,013	1,188	26	11,373	-	**11,373**	4,061	1,725	5,587	56%	7%
	256,463	**40,947**	**-**	**167,210**	**2,013**	**1,188**	**16,638**	**28,467**	**-**	**28,467**	**12,374**	**3,244**	**12,849**	**51%**	**11%**
Loans and advances to banks															
Bank	**30,962**	**6,340**	-	**23,981**	641	-	-	-	-	-	-	-	**-**	-	-
Gross carrying amount	**287,425**	**47,287**	**-**	**191,191**	**2,654**	**1,188**	**16,638**	**28,467**	**-**	**28,467**	**12,374**	**3,244**	**12,849**	**51%**	**10%**
Less: Total expected credit losses for loans and advances	**(20,591)**														
Net carrying amount of loans & advances measured at amortised cost	**266,834**														

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 Credit Quality (continued)

b) Credit quality by class (continued)

Year ended 31 December 2023	Gross Carrying amount KShs. Million	SB 1 - 12		SB 13 - 20		SB 21- 25		Default	
		Stage 1 KShs. million	Stage 2* KShs. million	Stage 1 KShs. million	Stage 2 KShs. million	Stage 1 KShs. million	Stage 2 KShs. million	Stage 3 KShs. million	Purchased/originated credit impaired KShs. million
Financial investments measured at amortised									
Sovereign	**22,639**	2,995	16,597	3,047	-	-	-	-	-
Gross carrying amount	**22,639**	**2,995**	**16,597**	**3,047**					
Less: Total expected credit losses for financial investments at amortised cost	**(84)**								
Net carrying amount	**22,555**								
Financial investments at fair value through OCI									
Corporate	**162**	-	-	162	-	-	-	-	-
Sovereign	**19,736**	18,695	1,041	-	-	-	-	-	-
Bank	-	-	-	-	-	-	-	-	-
Mutual funds and unit-linked investments	-	-	-	-	-	-	-	-	-
Other instruments	-	-	-	-	-	-	-	-	-
Gross carrying amount	**19,898**	**18,695**	**1,041**	**162**					
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	**(6)**								
Net carrying amount	**19,892**								

* The Banks credit policies requires that financial instruments which experience more than 3 notches downgrade since inception be reviewed for significant increase in credit risk(SICR)
The part of sovereign exposures classified as stage 2 in the table above were assessed over four years time.
The sovereign rating has since been revised resulting in a 3 notch downgrade.This is also in line with external credit ratings against ratings of the sovereign.

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 Credit Quality (continued)

b) Credit quality by class (continued)

Year ended 31 December 2022	Gross Carrying amount KShs. million	SB 1 - 12		SB 13 - 20		SB 21- 25		Default	
		Stage 1 KShs. million	Stage 2 KShs. million	Stage 1 KShs. million	Stage 2 KShs. million	Stage 1 KShs. million	Stage 2 KShs. million	Stage 3 KShs. million	Purchased/originated credit impaired KShs. million
Financial investments measured at amortised									
Corporate	**-**	-	-	-	-	-	-	-	-
Sovereign	**26,343**	26,343	-	-	-	-	-	-	-
Bank	-	-	-	-	-	-	-	-	-
Mutual funds and unit-linked investments	-	-	-	-	-	-	-	-	-
Other instruments	-	-	-	-	-	-	-	-	-
Gross carrying amount	**26,343**	**26,343**							
Less: Total expected credit losses for financial investments at amortised cost	**(54)**								
Net carrying amount	**26,289**								

Financial investments at fair value through OCI									
Corporate	**215**	215	-	-	-	-	-	-	-
Sovereign	**31,925**	31,925	-	-	-	-	-	-	-
Bank	-	-	-	-	-	-	-	-	-
Mutual funds and unit-linked investments	-	-	-	-	-	-	-	-	-
Other instruments	-	-	-	-	-	-	-	-	-
Gross carrying amount	**32,140**	**32,140**							
Add: Fair value reserve ralating to fair value adjustments (before the ECL balance)	**(4)**								
Net carrying amount	**32,136**								

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 Credit Quality (continued)

b) Credit quality by class (continued)

Year ended 31 December 2023	Gross Carrying amount	SB 1 - 12		SB 13 - 20		SB 21- 25		Default	
		Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Purchased/originated credit impaired
	KShs. Million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
Off-balance sheet exposure									
Letters of credit and bankers' acceptances	**30,976**	1,014	-	29,942	20	-	-	-	-
Guarantees	**65,303**	50,246	-	13,416	1,600	2	-	39	-
Unutilised facilities	**16,794**	1,812	-	14,896	78	6	-	2	-
Gross carrying amount	**113,073**	**53,072**	**-**	**58,254**	**1,698**	**8**	**-**	**41**	**-**
Less: Total expected credit lossess	**(93)**								
Net carrying amount of off-balance sheet exposure	**112,980**								

Off-balance sheet exposure									
Year ended 31 December 2022									
Letters of credit and bankers' acceptances	**3,033**	551	-	2,449	33	-	-	-	-
Guarantees	**73,632**	51,947	-	19,149	2,495	1	-	40	-
Unutilised facilities	**17,581**	2,517	49	14,945	70	-	-	-	-
Gross carrying amount	**94,246**	**55,015**	**49**	**36,543**	**2,598**	**1**	**-**	**40**	**-**
Less: Total expected credit lossess	**(115)**								
Net carrying amount of off-balance sheet exposure	**94,131**								

Notes (continued)

4 Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 Credit Quality (continued)

c) Ageing analysis of past due but not impaired financial assets

Loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary.

The table below shows the ageing of financial assets that are past due at the reporting date but not credit impaired, per class.

	Performing (Early arrears)			Non - performing		Total
	1 to 29 days	30 to 59 days	60 to 89 days	90 to 180 days	More than 180 days	
31 December 2023	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
PPB (formerly CHNW)	**5,559**	**1,239**	**732**	**-**	**-**	**7,530**
Mortgage lending	3,592	800	471	-	-	**4,863**
Vehicle and asset finance	520	89	19	-	-	**628**
Other loans and advances	1,447	350	242	-	-	**2,039**
BCB (formerly BCC)	**11,219**	**430**	**693**	**-**	**-**	**12,342**
Mortgage lending	4,006	-	-	-	-	**4,006**
Vehicle and asset finance	1,075	170	53	-	-	**1,298**
Other loans and advances	6,138	260	640	-	-	**7,038**
Corporate and Investment Banking (CIB)	**6,946**	**-**	**3**	**-**	**-**	**6,949**
Corporate lending	6,946	-	3	-	-	**6,949**
Total recognised financial instruments	**23,724**	**1,669**	**1,428**	**-**	**-**	**26,821**
31 December 2022						
PPB	**5,127**	**1,363**	**893**	**-**	**-**	**7,383**
Mortgage lending	3,469	838	597	-	-	**4,904**
Vehicle and asset finance	365	125	19	-	-	**509**
Other loans and advances	1,293	400	277	-	-	**1,970**
BCB	**2,595**	**1,423**	**271**	**-**	**-**	**4,289**
Mortgage lending	17	-	-	-	-	**17**
Vehicle and asset finance	836	165	59	-	-	**1,060**
Other loans and advances	1,742	1,258	212	-	-	**3,212**
Corporate and Investment Banking	**6,683**	**-**	**-**	**-**	**-**	**6,683**
Corporate lending	6,683	-	-	-	-	**6,683**
Total recognised financial instruments	**14,405**	**2,786**	**1,164**	**-**	**-**	**18,355**

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk

Market risk is the risk of a change in market value, earnings (actual or effective) or future cash-flows of a portfolio of financial instruments (including commodities), caused by moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these measures.

4.3.1 Governance committees

The Bank's policy is that all trading activities are undertaken within the Bank's trading operations. The Board grants general authority to take on market risk exposure to the Bank's Assets and Liabilities Committee (ALCO).

Market risk management process is required to measure, monitor and control market risk exposures. The Bank manages market risk through following four principles.

i) Identification of market risks in the trading and banking books

This process entails analysis of new business plans, new products, new pricing models, new risk models and regular reviews by Market Risk staff of financial and management accounts statement of financial position, statement of profit or loss, portfolio structure hierarchies, accounting classification and accounting elections, jointly with financial control, Risk Self Assessments jointly with operational risk, price testing reports and profit and loss decomposition reports.

ii) Measurement of market risk

Measurement of market risks deals specifically and separately with normal market conditions and stress market conditions. Measurement of trading exposures under stress market conditions is effected by subjecting the portfolios to stress testing, e.g. historical scenarios, hypothetical scenarios on individual asset classes and across different asset classes. In order to highlight 'points of weakness' and identify particular sources of trading book exposure vulnerability, these stress tests capture the effects of abnormal movements in market variables (yield curves including basis curves, volatility surfaces, spot and/or rate moves, credit spread curves, recovery rate sensitivities etc.).

iii) Management of market risk

The Bank manages market risk through a specification of risk appetite in form of market risk limits. It uses a suite of risk measurement techniques, including Value at Risk (VaR), Stress Value at Risk (SVar), stress testing, stop loss triggers, back-testing and specific business unit and product controls.

iv) Reporting of market risk

Market Risk has reporting procedures that highlight for attention within Market Risk or by management all forms of exposures i.e. limit breaches or other reports that will periodically be required to submit to different stakeholders e.g. Local ALCO, Local Board, Shareholders, Rating agencies, Central Bank of Kenya and Internal Capital Adequacy Assessment Process (ICAAP) stakeholders.

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.2 Market risk exposure on banking operations

Banking-related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and the economic value of equity that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities. They include endowment risk, repricing risk, basis risk, optionality risk and yield curve risk. The Bank's approach to managing Interest Rate Risk in Banking Book (IRRBB) is governed by applicable regulations and is influenced by the competitive environment in which the Bank operates. Treasury and Capital Management team monitors banking book interest rate risk together with the country ALCO.

The market risk function is independent of trading operations and it is accountable to ALCO. It is responsible for identifying, measuring, managing, controlling and reporting market risk as outlined in the market risk governance standard, with support from the central market risk function. The market risk function also has the ability to set individual trader mandates. Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk management unit to move exposures back in line with approved market risk appetite, with such breaches being reported to management and ALCO.

4.3.3 Approved regulatory capital approaches

The Bank applies the Standardised approach for calculating market risk capital. The standardised method uses a "building block" approach, with the capital charge for each risk category calculated separately.

Market risk qualifying assets includes interest rate risk assets in the trading book and foreign currency risk assets throughout the Bank.

4.3.4 Trading book market risk

Trading book market risk is represented by financial instruments held on the trading book, arising out of normal global markets' trading activity.

4.3.5 Approach to managing market risk in the trading book

The Stanbic Bank policy is that all trading activities are undertaken within the Bank's trading operations. The market risk functions are independent of trading operations and accountable to ALCO. All Value at Risk (VaR) and stressed VaR (SVaR) limits require prior approval from ALCO. The market risk functions have the authority to set limits at a lower level.

Market risk teams are responsible for identifying, measuring, managing, monitoring and reporting market risk as outlined in the market risk governance standard.

Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk functions to move exposures back in line with approved market risk appetite, with such breaches being reported to management and ALCO.

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.5 Approach to managing market risk in the trading book (continued)

a) VaR and SVaR

The Bank uses the historical VaR and SVaR approach to quantify market risk under normal conditions and under stressed conditions.

For risk management purposes VaR is based on 250 days of unweighted recent historical data, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in four steps:

- Calculate 250 daily market price movements based on 250 days' historical data.
- Calculate hypothetical daily profit or loss for each day using these daily market price movements.
- Aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss, and then repeat for all other days.
- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days.

SVaR uses a similar methodology to VaR, but is based on a period of financial stress and assumes a 10-day holding period and a 99% confidence interval.

Where the Bank has received internal model approval, the market risk regulatory capital requirement is based on VaR and SVaR, both of which use a confidence level of 99% and a 10-day holding period.

Limitations of historical VaR are acknowledged globally and include:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature.
- The use of a one-day holding period assumes that all positions can be liquidated or the risk offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully.
- The use of a 95% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intraday exposures.
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market moves.

Trading book portfolio characteristics

VaR for the year under review

Trading book market risk exposures arise mainly from residual exposures from client transactions and limited trading for the group's own account. In general, the group's trading desks have run increased levels of market risk throughout the year for all asset classes when compared to 2022 aggregate normal VaR, and aggregate SVaR.

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.5 Approach to managing market risk in the trading book (continued)

a) VaR and SVaR (continued)

Normal VaR Exposures

31 December 2023	Normal VAR			
Desk name	Maximum	Minimum	Average	Closing
	KShs (Million)	KShs (Million)	KShs (Million)	KShs (Million)
FX trading	71	2	19	27
Money market trading	22	4	11	4
Fixed income trading	7	1	3	5
Money market banking	16	5	9	15
Bankwide	65	13	25	30

31 December 2022	Normal VAR			
Desk name	Maximum	Minimum	Average	Closing
	KShs (Million)	KShs (Million)	KShs (Million)	KShs (Million)
FX trading	48	4	21	26
Money market trading	14	3	7	14
Fixed income trading	8	1	3	2
Money market banking	13	5	9	8
Bankwide	51	10	25	32

SVaR Exposures

31 December 2023	SVAR			
Desk name	Maximum	Minimum	Average	Closing
FX trading	168	22	90	116
Money market trading	122	16	69	18
Fixed income trading	78	22	34	23
Money market banking	156	60	98	98
Bankwide	156	66	103	119

31 December 2022				
Desk name	Maximum	Minimum	Average	Closing
FX trading	167	20	90	34
Money market trading	97	30	69	84
Fixed income trading	108	25	54	50
Money market banking	131	60	96	102
Bankwide	175	66	124	106

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.5 Approach to managing market risk in the trading book (continued)

b) Stop-loss triggers

Stop-loss triggers are used to protect the profitability of the trading desks, and are monitored by market risk on a daily basis. The triggers constrain cumulative or daily trading losses through acting as a prompt to a review or close-out positions.

c) Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical and hypothetical simulations. Daily losses experienced during the year ended 31 December 2018 did not exceed the maximum tolerable losses as represented by the Bank's stress scenario limits.

d) Back-testing

The Bank back-tests its VaR models to verify the predictive ability of the VaR calculations and ensure the appropriateness of the models within the inherent limitations of VaR. Back-testing compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day's calculated VaR In addition, VaR is tested by changing various model parameters, such as confidence intervals and observation periods to test the effectiveness of hedges and risk-mitigation instruments.

e) Specific business unit and product controls

Other market risk limits and controls specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor, stop-loss triggers, price validation and balance sheet substantiation.

4.3.6 Foreign exchange risk

Definition

The Bank's primary exposures to foreign currency risk arise as a result of the translation effect on the bank's net assets in foreign operations, intragroup foreign-denominated debt and foreign denominated cash exposures and accruals.

Approach to managing foreign currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily risk according to existing legislation, and accounting parameters. It takes into account naturally offsetting risk positions and manages the bank's residual risk by means of forward exchange contracts, currency swaps and option contracts.

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.6 Foreign exchange risk (continued)

Gains or losses on derivatives are reported in profit or loss.

The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2023.

Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in millions of Kenya Shillings):

At 31 December 2023	USD	GBP	EUR	Others	Total
Assets					
Cash and bank balances with banks abroad	12,851	646	1,660	2,454	**17,611**
Loans and advances	82,820	268	7,321	26	**90,435**
Investment in government securities	3,062	-	-	-	**3,062**
Balances due from group companies	87,014	4,035	6,577	688	**98,314**
Other foreign currency assets	1,302	18	1	450	**1,771**
Total foreign denominated financial assets	**187,049**	**4,967**	**15,559**	**3,618**	**211,193**
Liabilities					
Amounts due to banking institutions abroad	9,154	-	3,659	-	**12,813**
Deposits	137,754	4,870	11,822	2,135	**156,581**
Borrowings	12,710	-	-	-	**12,710**
Balances due to group companies	12,840	28	102	-	**12,970**
Other foreign currency liabilities	5,863	9	475	1,795	**8,142**
Total foreign denominated financial liabilities	**178,321**	**4,907**	**16,058**	**3,930**	**203,216**
Net on balance sheet financial position	8,728	60	(499)	(312)	**7,977**
Off balance sheet net notional position	(9,323)	6	1,136	(63)	**(8,244)**
Overall net position	**(595)**	**66**	**637**	**(375)**	**(267)**

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.6 Foreign exchange risk (continued)

At 31 December 2022	USD	GBP	Euro	Others	Total
Assets					
Cash and bank balances with banks abroad	11,522	895	8,067	2,246	**22,730**
Loans and advances	98,471	231	10,357	9	**109,068**
Investment in government securities	6,247	-	-	-	**6,247**
Balances due from Group Companies	21,924	2,453	3,705	393	**28,475**
Other foreign currency assets	3,041	-	75	373	**3,489**
Total foreign denominated financial assets	**141,205**	**3,579**	**22,204**	**3,021**	**170,009**
Liabilities					
Amounts due to banking institutions abroad	11,951	-	5,681	10	**17,642**
Deposits	112,532	4,807	16,986	1,153	**135,478**
Borrowings	10,140	-	-	-	**10,140**
Balances due to Group Companies	22,226	37	88	2	**22,353**
Other foreign currency liabilities	4,395	32	343	1,895	**6,665**
Total foreign denominated financial liabilities	**161,244**	**4,876**	**23,098**	**3,060**	**192,278**
Net on balance sheet financial position	(20,039)	(1,297)	(894)	(39)	**(22,269)**
Off balance sheet net notional position	20,099	1,318	1,141	(36)	**22,522**
Overall net position	**60**	**21**	**247**	**(75)**	**253**

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates on its financial position and cash flows. The Board sets limit on the level of exposure by currency and in aggregate for both overnight and intraday positions, which are monitored daily. The table indicates the extent to which the bank was exposed to currency risk as at 31 December on its monetary assets and liabilities denominated in foreign currency. It shows the sensitivity analysis for each currency to which the bank has significant exposure and the effect of the change in exchange rate on the income statement. Percentage exchange rate changes represent the average of the largest 1 and 10 days increase/decrease for the year.

Year ended 31 December 2023	Increase in currency rate in %	Effect on profit before tax	Effect on equity	Decrease in currency rate in %	Effect on profit before tax	Effect on equity
	2023	2023	2023	2023	2023	2023
Currency		KShs. million	KShs. million		KShs. million	hs. million
USD	**12.26%**	**(73)**	**(51)**	**(10.59%)**	**63**	**44**
GBP	**7.87%**	**5**	**4**	**(12.98%)**	**(9)**	**(6)**
EUR	**8.09%**	**52**	**36**	**(9.22%)**	**(59)**	**(41)**

Year ended 31 December 2022	Increase in currency rate in %	Effect on profit before tax	Effect on equity	Decrease in currency rate in %	Effect on profit before tax	Effect on equity
	2022	2022	2022	2022	2022	2022
Currency		KShs. million	KShs. million		KShs. million	hs. million
USD	**0.04%**	-	-	**(1.70%)**	(1)	(1)
GBP	**7.26%**	2	1	**(5.58%)**	(1)	(1)
EUR	**4.15%**	10	7	**(5.56%)**	(14)	(10)

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.7 Interest rate risk

Interest rate risk in the banking book (IRRBB)

These are risks that have an impact on net interest income that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities.

IRRBB is further divided into the following sub risk types:

- **Repricing risk:** timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and liabilities.
- **Yield curve risk:** shifts in the yield curves that have adverse effects on the Bank's income or underlying economic value.
- **Basis risk:** hedge price not moving in line with the price of the hedged position. Examples include bonds/swap basis, futures/ underlying basis.
- **Optionality risk:** options embedded in bank asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial contract.
- **Endowment risk:** exposure arising from the net differential between interest rate insensitive assets such as non-earning assets, interest rate insensitive liabilities such as non-paying liabilities, and equity.

Approach to managing IRRBB

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

The Bank's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the Bank operates. The Bank's Treasury and Capital Management team monitors banking book interest rate risk operating under the oversight of ALCO.

The Treasury team is responsible for measuring the impact on earnings and economic value as well as monitoring and reporting against the stated limits and guidelines to the various entity ALCO and board committees.

Measurement

The analytical techniques used to quantify IRRBB include both earnings- and valuation-based measures. The analysis takes account of embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis.
Desired changes to a particular interest rate risk profile are achieved through the restructuring of on-balance sheet repricing or maturity profiles, or through derivative overlays.

Limits

Interest rate risk limits are set in relation to changes in forecast banking book earnings and the economic value of equity. Economic value of equity sensitivity is calculated as the net present value of aggregate asset cash flows less the net present value of aggregate liability cash flows.

All assets, liabilities and derivative instruments are allocated to gap intervals based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on behavioural profiling.

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.7 Interest rate risk (continued)

Hedging of endowment risk

IRRBB is predominantly the consequence of endowment exposures, being the net effect of non-rate sensitive assets less non-rate sensitive liabilities and equity.

The endowment risk is hedged using liquid instruments as and when it is considered opportune. Where permissible, hedge accounting is adopted using the derivatives. The interest rate view is formulated through ALCO processes, following meetings of the monetary policy committees, or notable market developments.

Non-endowment IRRBB (repricing, yield curve, basis and optionality) is managed within the treasury and the global markets portfolios.

The table below indicates the KShs equivalent sensitivity of the Bank's banking book earnings (net interest income and banking book mark-to-market profit or loss) and other comprehensive income (OCI) given a parallel yield curve shock. A floor of 0% is applied to all interest rates under the decreasing interest rate scenario. Hedging transactions are taken into account while other variables are kept constant.

Currency	Increase in basis points	Sensitivity of net interest income 2023 KShs' million	Sensitivity of other comprehensive income 2023 KShs' million	Decrease in basis points 2023 KShs' million	Sensitivity of net interest income 2023 KShs' million	Sensitivity of other comprehensive income 2023 KShs' million
KShs	250	1,445	(88)	(200)	(1,107)	70
Others*	100	3	-	(100)	(4)	-

Currency	Increase in basis points	Sensitivity of net interest income 2022 KShs' million	Sensitivity of other comprehensive income 2022 KShs' million	Decrease in basis points 2022 KShs' million	Sensitivity of net interest income 2022 KShs' million	Sensitivity of other comprehensive income 2022 KShs' million
KShs	250	1,223	(201)	(200)	(1,096)	160
Others*	100	2	-	(100)	(5)	-

** These are any other currencies held by the Bank not denominated in KShs.*

Notes (continued)

4 Financial risk management (continued)

4.4 Liquidity risk

Liquidity risk arises when the Bank, despite being solvent, is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so on materially disadvantageous terms. This inability to maintain or generate sufficient cash resources may arise where counterparties who provide the Bank with short-term funding withdraw or do not rollover that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

The nature of banking and trading activities results in a continuous exposure to liquidity risk. The Bank manages liquidity in accordance with applicable regulations and within the Bank's risk appetite. The Bank's liquidity risk management governance framework supports the measurement and management of liquidity at various levels to ensure that all payment obligations can be met by the Bank under both normal and stressed conditions. Liquidity risk management ensures that the Bank has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times.

The Bank's liquidity risk management framework differentiates between:

- **Tactical (shorter-term) risk management:** managing intra-day liquidity positions and daily cash flow requirements, and monitoring adherence to prudential and internal requirements and setting deposit rates as informed by ALCO.
- **Structural (long-term) liquidity risk management:** ensuring a structurally sound statement of financial position, a diversified funding base and prudent term funding requirements.
- **Contingent liquidity risk management:** monitoring and managing early warning liquidity indicators while establishing and maintaining contingency funding plans, undertaking regular liquidity stress testing and scenario analysis, and setting liquidity buffers in accordance with anticipated stress events.

Governance committees

The primary governance committee overseeing this risk is the Bank Asset Liability Committee (ALCO), which is chaired by the Chief Executive. There is independent risk oversight of all liquidity limits and guidelines by Market Risk, Finance and Asset Liability Management units. ALCO reports to the Board Risk Committee.

Approach to managing liquidity risk

There is a sound and robust liquidity management process to measure, monitor and manage liquidity exposures. The following elements are incorporated as part of a cohesive liquidity management process:

- **Maintaining a structurally sound statement of financial position;**
  With actual cash flows typically varying significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet commitments with an indeterminable maturity or drawdown period, as well as to certain liquid assets. Behavioural profiling assigns probable maturities based on historical customer behaviour. This is used to identify significant additional sources of structural liquidity in the form of liquid assets and core deposits, such as current and savings accounts, which exhibit stable behaviour despite being repayable on demand or at short notice.

  Structural liquidity mismatch analysis are performed regularly to anticipate the mismatch between payment profiles of balance sheet items, in order to highlight potential risks within the Bank's defined liquidity risk thresholds.
- **Foreign currency liquidity management;**
  A specific number of indicators are observed in order to monitor changes in market liquidity as well as the impacts on liquidity as a result of movements in exchange rates. Foreign currency loans and advances are restricted to the availability of foreign currency deposits.

Notes (continued)

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

- **Ensuring the availability of sufficient contingency liquidity;**
  Funding markets are evaluated on an on-going basis to ensure appropriate Bank funding strategies are executed depending on the market, competitive and regulatory environment. The Bank employs a diversified funding strategy.

- **Preserving a diversified funding base;**
  Concentration risk limits are used within the Bank to ensure that funding diversification is maintained across products, sectors, and counterparties. Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital.

- **Undertaking regular liquidity stress testing;**
  Stress testing and scenario analysis are based on hypothetical as well as historical events. These are conducted on the funding profiles and liquidity positions of the Bank. The crisis impact is typically measured over a two month period, as this is considered the most crucial time horizon for a liquidity event. Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to the Bank's ability to maintain sufficient liquidity under adverse conditions.

- **Maintaining adequate liquidity contingency plans or liquidity buffer;**
  Portfolios of highly marketable securities over and above regulatory and stress testing requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO defined limits on the basis of diversification and liquidity.

- **Short-term and long-term cash flow management;**
  Active liquidity and funding management is an integrated effort across a number of functional areas. Short-term cash flow projections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and internal requirements.

  The Bank's long term funding strategy is derived from the projected net asset growth which includes consideration of Personal and Private Banking (PPB) and Business and Commercial Banking (BCB) and Corporate & Investment Banking (CIB) asset classes, capital requirements, the maturity profile of existing wholesale funding and anticipated changes in the retail deposit base. Funding requirements and initiatives are assessed in accordance with ALCO requirements for diversification, tenure and currency exposure, as well as the availability and pricing of alternative liquidity sources.

  Liquidity contingency plans are designed to, as far as possible, protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. The plans incorporate an extensive early warning indicator process supported by a clear and decisive crisis response strategy. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels.

  Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications and escalation processes, liquidity generation management actions and operations, and heightened and supplementary information requirements to address the crisis event.

  The cumulative impact of the above elements is monitored on a monthly basis by the Bank's ALCO and the process is underpinned by a system of extensive internal and external controls. In periods of increased volatility, the frequency of meetings is increased as required to facilitate appropriate and timely management action.

  To ensure integrity of the process there is use of application of purpose built technology, documented processes and procedures; independent oversight by risk management and regular independent reviews and evaluations of the effectiveness of the system. The total amount of liquidity held is adequate to meet all internal stress tests as well as regulatory requirements.

Notes (continued)

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

Exposure to liquidity risk

The key measure by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, 'net liquid assets' includes cash and cash equivalents and financial investment debt securities for which there is an active and liquid market less any deposits from banks. Details of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	2023 %	2022 %
At 31 December	**40.3**	45.2
Average for the year	**41.4**	40.3
Maximum for the year	**47.2**	47.8
Minimum for the year	**35.8**	35.9
Statutory minimum requirement	**20.0**	20.0

The tables below present the remaining contractual maturities of the Bank's non-derivative financial liabilities; it includes a maturity analysis for financial assets that the Bank holds as part of managing liquidity risk – e.g. financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

Notes (continued)

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities

	Carrying value	Gross nominal inflow/(outflow)	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing After 5 years
	2023	2023	2023	2023	2023	2023	2023	2023
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
Non- derivative financial assets								
Cash and balances to banks	**25,503**	**25,503**	25,503	-	-	-	-	-
Financial assets at FVTPL	**2,898**	**5,233**	-	5	318	321	4,370	219
Financial assets at FVOCI	**19,892**	**20,279**	-	-	13,487	580	6,212	-
Financial assets at amortised cost	**22,555**	**27,929**	-	8	7,871	3,889	8,557	7,604
Loans and advances to banks	**95,658**	**97,277**	5,037	49,207	17,381	20,841	3,849	962
Loans and advances to customers	**260,508**	**408,011**	32,518	6,771	34,655	40,625	251,638	41,804
Other assets	**5,906**	**5,906**	5,906	-	-	-	-	-
	432,920	**590,138**	**68,964**	**55,991**	**73,712**	**66,256**	**274,626**	**50,589**
Derivative assets:	**2,250**							
- Inflows		**(10,577)**	-	(1,977)	(5,671)	(2,926)	(3)	-
- Outflows		**28,992**	-	3,961	16,422	8,609	-	-
	2,250	**18,415**	**-**	**1,984**	**10,751**	**5,683**	**(3)**	**-**
Non- derivative financial liabilities								
Amounts due to banks	**(26,004)**	**(26,462)**	(16,021)	(318)	(1,543)	(21)	(8,559)	-
Customer deposits	**(322,211)**	**(325,262)**	(194,848)	(100,584)	(9,050)	(6,895)	(13,885)	-
Trading liabilities	**(14,071)**	**(10,547)**	-	(1,353)	(2,558)	(1,338)	(4,607)	(691)
Borrowings	**(12,713)**	**(16,943)**	-	(230)	(1,149)	(1,379)	(11,028)	(3,157)
Other liabilities	**(8,111)**	**(8,111)**	(8,111)	-	-	-	-	-
	(383,110)	**(387,325)**	**(218,980)**	**(102,485)**	**(14,300)**	**(9,633)**	**(38,079)**	**(3,848)**
Derivative liabilities:	**(2,570)**							
- Inflows		**(40,304)**	-	(4,954)	(27,250)	(8,212)	101	11
- Outflows		**10,875**	-	2,011	4,652	4,212	-	-
	(2,570)	**(29,429)**	**-**	**(2,943)**	**(22,598)**	**(4,000)**	**101**	**11**

Notes (continued)

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities (continued)

	Carrying value	Gross nominal inflow/(outflow)	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing After 5 years
	2022	2022	2022	2022	2022	2022	2022	2022
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
Non- derivative financial assets								
Cash and balances to banks	**20,772**	20,772	20,772	-	-	-	-	-
Financial assets at FVTPL	**25,126**	25,660	-	-	25,000	-	22	638
Financial assets at FVOCI	**32,133**	32,340	-	10,600	16,001	-	5,739	-
Financial assets at amortised cost	**26,286**	26,157	-	-	500	-	18,857	6,800
Loans and advances to banks	**30,951**	31,332	8,659	18,913	332	398	2,709	321
Loans and advances to customers	**235,873**	334,022	15,155	5,854	29,991	35,123	216,645	31,254
Other assets	**4,562**	4,562	4,562	-	-	-	-	-
	375,703	**474,845**	**49,148**	**35,367**	**71,824**	**35,521**	**243,972**	**39,013**
Derivative assets:	**2,259**							
- Inflows	**-**	**1,609**	62	639	366	542	-	-
- Outflows	**-**	**(744)**	172	(398)	(440)	(57)	(21)	-
	2,259	**865**	**234**	**241**	**(74)**	**485**	**(21)**	**-**
Non-derivative financial liabilities								
Amounts due to banks	**(32,753)**	**(33,257)**	(22,769)	(318)	(1,545)	(21)	(8,604)	-
Customer deposits	**(272,144)**	**(274,541)**	(169,077)	(84,261)	(17,265)	(3,332)	(578)	(28)
Trading liabilities	**(8,001)**	**(7,862)**	-	-	(1,645)	(149)	(5,418)	(650)
Borrowings	**(10,141)**	**(13,956)**	-	(162)	(808)	(969)	(7,753)	(4,264)
Other liabilities	**(8,442)**	**(8,442)**	(8,442)	-	-	-	-	-
	(331,481)	**(338,058)**	**(200,288)**	**(84,741)**	**(21,263)**	**(4,471)**	**(22,353)**	**(4,942)**
Derivative liabilities:	**(1,687)**							
- Inflows	**-**	**32**	**(171)**	**240**	**(36)**	**(1)**	**-**	-
- Outflows	**-**	**(1,029)**	**(19)**	**(312)**	**(177)**	**(521)**	**-**	-
	(1,687)	**(997)**	**(190)**	**(72)**	**(213)**	**(522)**	**-**	**-**

Notes (continued)

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities (continued)

The amounts in the table above have been compiled as follows:

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows which include interest payments.
Issued financial guarantee contracts, and unrecognised loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
Derivative financial liabilities and financial assets held for risk management purpose	Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) and the net amounts for derivatives that are net settled.

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and debt securities issued by sovereigns which can be readily sold to meet liquidity requirements. In addition the Bank maintains lines of credit with other banks and holds unencumbered assets eligible for use as collateral with central banks.

4.5 Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

The following table sets out the impact of offset, as well as financial assets and financial liabilities that are subject to enforceable master netting arrangement or similar agreement, irrespective of whether they have been offset in accordance with IAS 32, as required by IFRS 7.13C disclosure requirements. The gross amounts of financial asset and financial liabilities and their net amounts disclosed in the table below have been measured in the statement of financial position on the following bases:

- Derivative asset and liabilities – fair value;
- Loans and advances – amortised cost; and
- Customer deposits – amortised cost.

Notes (continued)

4 Financial risk management (continued)

4.5 Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements (continued)

The ISDA* and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the bank or the counterparties following other predetermined events. In addition the bank and its counterparties do not intent to settle on a net basis or to realise the assets and the liabilities simultaneously.

The Bank receives collateral in the form of cash in respect of lending.

The table below sets out the nature of agreement, and the types of rights relating to items which do not qualify for offset but that are subject to a master netting arrangement or similar agreement.

Financial instrument	Nature of agreement	Basis on which amounts are compiled
Derivative assets and liabilities	ISDAs*	The agreement allows for offset in the event of default.
Trading assets and trading liabilities	Global master repurchase agreements	The agreement allows for offset in the event of default.
Loans and advances to banks	Banking Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banking Act requirements.
Deposits and current accounts	Banking Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banking Act requirements.

IFRS 9 Financial Instruments requires financial assets and financial liabilities to be offset and the net amount presented in the statement of financial position when, and only when, the bank has a current legally enforceable right to set off recognised amounts, as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

** An ISDA master agreement is a standard agreement used in over-the-counter derivatives transactions. The ISDA Master Agreement, published by the International Swaps and Derivatives Association (ISDA), is a document that outlines the terms applied to a derivatives transaction between two parties.*

Notes (continued)

4 Financial risk management (continued)

4.6 Interest rate benchmarks and reference interest rate reform

The Financial Stability Board had initiated a fundamental review and reform of the major interest rate benchmarks used globally by financial market participants. This review seeks to replace existing interbank offered rates (IBORs) with alternative risk-free rates (ARRs) to improve market efficiency and mitigate systemic risk across financial markets.

During the 2021 financial year, the LIBOR's administrator, the Intercontinental Exchange Benchmark Administration Limited, announced it would no longer publish EUR, CHF, JPY and GBP related LIBOR rates for all tenors after 31 December 2021. The ICE Benchmark Administration Limited (IBA) had adopted a two-stage approach for the cession of the USD LIBOR rates with the one week and two month USD LIBOR rates no longer being published after 31 December 2021 and the remaining being the overnight, one month, three month, six month and 12 month rates no longer being published after 30 June 2023. The LIBOR rates which the group is exposed to will predominantly be replaced by Secured Overnight Financing Rate (SOFR), Sterling Overnight Index Average (SONIA), Euro Short Term Rate (ESTR), Tokyo Overnight Average (TONA) and Swiss Average Rate Overnight (SARON). In certain instances, other suitable rates are used, such as Central Bank Policy Rates.

There are minimal IBOR-linked contracts remaining with transition having taken place predominantly in Q2 and Q3 2023.Synthetic USD Libor is being published for a limited period, to assist the market with tough legacy transactions to be transitioned. Use of synthetic Libor is limited across the Bank with a focus on transitioning client transactions to the target alternative reference rates.

The Bank has in place an established steering committee and working group within treasury and capital management (TCM) which continues to monitor the progression of the remaining transitions.

Communications to clients are ongoing via multiple platforms along with one-on-one engagements to discuss transition where exposed to USD LIBOR rates that mature post cessation date.

The IBOR reform exposes the Bank to various risks, which the steering committee has been managing and monitoring closely. These risks include but are not limited to the following:

i) Model risk – risk of the valuation models used within the Bank not being able to cater for the changes in the intended manner.

ii) Legal risk – risk of being non-compliant to the agreements previously agreed with clients.

iii) Operational risk – risk of the Bank's systems not being able to accommodate for the changes to the interest rates as agreed.

iv) Financial risk – risk of not appropriately pricing the deals which will result in a transfer of value between the Bank and clients.

v) Compliance/regulatory risk – risk that the Bank is exposed to regulatory sanctions due to failing to meet the regulatory expectations in relation to the transition.

vi) Reputational risk – the risk to the Bank's reputation from failing to adequately prepare for the transition.

vii) Conduct risk – risk that arises when transitioning existing contracts linked to IBORs as value-transfer may occur, or clients may be transitioned to inferior rates or on unfair contractual terms, or in circumstances where they do not fully appreciate the impact of the transition or the alternatives available to them.

4 Financial risk management (continued)

4.6 Interest rate benchmarks and reference interest rate reform (continued)

Financial instruments impacted by the reform which are yet to transition:

	USD LIBOR 2023 KShs million	USD LIBOR 2022 KShs million
Total assets subject to IBOR reform	**2,147**	**28,596**
Derivative Assets[1]	-	-
Financial assets – (FVTPL)	100	-
Loans and Advances[2]	2,047	28,596
Trading Assets	-	-
Total liabilities subject to IBOR reform	**(3,359)**	**(15,633)**
Derivative Liabilities[1]	-	-
Deposits and debt funding	-	(9,257)
Borrowings	(3,259)	(6,376)
Financial liabilities – FVTPL	(100)	-
Total off balance sheet exposures subject to IBOR reform	**-**	**-**
Off balance sheet items	-	-

1These balances represent the notional amount directly impacted by the IBOR reform. Where the derivatives have both pay and receive legs with exposure to the benchmark reform such as cross currency swaps, the notional amount is disclosed for both legs.

2Gross carrying amount excluding allowances for expected credit losses (ECL).

Notes (continued)

5 Assets and liabilities at fair value

5.1 Fair value hierarchy of instruments measured at fair value

Valuation process

All financial instruments carried at fair value, regardless of classification, are marked to market using models that have been validated independently by the Bank's model validation unit and approved by the market risk methodologies committee. This control applies to both off-the-shelf models as well as those developed internally by the Bank. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the market risk unit. Such price validation is performed on at least a monthly basis and daily where possible given the liquidity of the underlying price inputs. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to market, are carefully validated and tabled at the monthly price validation forum to ensure these are reasonable and used consistently. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed on a monthly basis to the market risk committee and ALCO.

Level hierarchy

The table on Note 5.2 shows the analyses financial instruments carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that available market data is used in the calculation of the fair value of the financial instruments. The levels have been defined as follows:

Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the assets and liabilities.

Significant unobservable inputs

The fair value of level 3 assets and liabilities is determined using valuation techniques that include reference to recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants. However, such techniques typically have unobservable inputs that are subject to management judgement. These inputs include credit spreads on illiquid issuers, implied volatilities on thinly traded stocks, correlation between risk factors, prepayment rates and other illiquid risk drivers. Exposure to such illiquid risk drivers is typically managed by:

- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver;
- raising day one profit provisions in accordance with IFRS;
- quantifying and reporting the sensitivity to each risk driver; and
- limiting exposure to such risk drivers and analysing this exposure on a regular basis.

Notes (continued)

5 Assets and liabilities at fair value (continued)

5.2 Assets and liabilities measured at fair value on a recurring basis

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy:

At 31 December 2023	Note	Level 1 KShs. million	Level 2 KShs. million	Level 3 KShs. million	Total KShs. million
Assets					
Cash and balances with the Central Bank of Kenya (minimum regulatory reserve)	19	21,077	-	-	21,077
Financial assets –FVTPL	21	-	2,898	-	2,898
Financial assets – FVOCI	22	7,964	11,928	-	19,892
Equity investments	29	-	-	18	18
Derivative assets	24	-	2,250	-	2,250
		29,041	**17,076**	**18**	**46,135**
Liabilities					
Trading liabilities	21	-	14,071	-	14,071
Derivative liabilities	24	-	2,570	-	2,570
		-	**16,641**	**-**	**16,641**
At 31 December 2022					
Assets					
Cash and balances with the Central Bank of Kenya (minimum regulatory reserve)	19	12,385	-	-	12,385
Financial assets – FVTPL	21	-	25,126	-	25,126
Financial assets – FVOCI	22	5,896	26,237	-	32,133
Equity investments	29	-	-	18	18
Derivative assets	24	-	2,259	-	2,259
		18,281	**53,622**	**18**	**71,921**
Liabilities					
Trading liabilities	21	-	8,001	-	8,001
Derivative liabilities	24	-	1,687	-	1,687
		-	**9,688**	**-**	**9,688**

There were no transfers between levels in 2023 and 2022.

Fair value of level 2 financial instruments

The fair value of level 2 financial instruments is determined using valuation techniques which incorporate assumptions that are indirectly supported by prices from observable current market transactions in the same instruments and are based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

Notes (continued)

5 Assets and liabilities at fair value (contined)

5.2 Assets and liabilities measured at fair value on a recurring basis (continued)

Level 2 financial assets and financial liabilities

	Valuation basis/technique	Main assumptions[1]
Derivative instruments	Discounted cash flow model Black-Scholes model Multiple valuation technique	Discount rate Risk-free rate, volatility rate Valuation multiples
Trading assets	Discounted cash flow model Black-Scholes model	Discount rate, liquidity Risk-free rate, volatility rate
Pledged assets	Discounted cash flow model	Discount rate, liquidity
Financial instruments	Discounted cash flow model Multiple valuation technique Quoted exit price adjusted for notice period	Discount rate, liquidity Valuation multiples Discount rate
Cash with Central Bank of Kenya	Prevailing exchange rate	Exchange rate
Investment in equities	Sale price	Discount rate

[1] *The main assumptions for all instruments include applicable credit spreads.*

Notes (continued)

5 Assets and liabilities at fair value (continued)

5.3 Assets and liabilities not measured at fair value

Financial assets and financial liabilities

Assets and liabilities not measured at fair value for which fair value is disclosed:

At 31 December 2023	Level 1 KShs. million	Level 2 KShs. million	Level 3 KShs. million	Fair value KShs. million	Carrying value KShs. million
Assets					
Cash and balances with the Central Bank of Kenya (Note 19)	4,426	-	-	4,426	4,426
Financial investments – Amortised cost	-	14,455	-	14,455	22,555
Loans and advances to banks	-	-	65,954	65,954	95,658
Loans and advances to customers	-	-	215,576	215,576	260,508
Other assets	-	-	5,906	5,906	5,906
	4,426	**14,455**	**287,436**	**306,317**	**389,053**
Liabilities					
Deposits from customers (note 36)	-	-	(259,326)	(259,326)	(322,211)
Deposits from banks (note 37)	-	-	(19,161)	(19,161)	(26,004)
Subordinated borrowings	-	-	(8,255)	(8,255)	(12,713)
Other liabilities	-	-	(8,111)	(8,111)	(8,111)
	-	**-**	**(294,853)**	**(294,853)**	**(369,039)**
At 31 December 2022					
Assets					
Cash and balances with the Central Bank of Kenya (Note 19)	8,387	-	-	8,387	8,387
Financial investments – amortised cost	-	19,517	-	19,517	26,286
Loans and advances to banks	-	-	27,231	27,231	30,951
Loans and advances to customers	-	-	243,795	243,795	235,873
Other assets	-	-	4,562	4,562	4,562
	8,387	**19,517**	**275,588**	**303,492**	**306,059**
Liabilities					
Deposits from banks	-	-	(248,008)	(248,008)	(272,144)
Customer deposits	-	-	(8,173)	(8,173)	(32,753)
Borrowings	-	-	(10,523)	(10,523)	(10,141)
Other liabilities	-	-	(10,492)	(10,492)	(10,492)
	-	**-**	**(277,196)**	**(277,196)**	**(325,530)**

The valuation techniques used in determining the fair value of financial assets and liabilities classified within level 2 and level 3.

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 2 and level 3 assets and liabilities not measured at fair value but for which fair value is disclosed in table 5.3 above:

2023	Valuation basis/technique	Main assumptions
Loans and advances to banks Loans and advances to customers Deposits from banks Customer deposits Subordinated debt Other financial assets	Discounted cash flow model	Discount rate, liquidity discount rate

Notes (continued)

6 Segment information

The Bank is required to disclose information to the users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates in compliance with IFRS 8.

An operating segment is a component of the Bank engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. Identification of segments and the measurement of segment results is based on the Bank's internal reporting to management.

The Chief Executive with the assistance of the Executive Committee (EXCO) and the Asset and Liability Committee (ALCO) is the Bank's chief operating decision-maker. The directors have determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. Management considers the business from client turnover perspective.

The Bank has therefore segmented its business as IAM, PPB, BCB and CIB. This is in line with Bank reporting and decision-making reports.

Insurance and Asset Management (IAM)

The Insurance & Asset Management (IAM) business unit offers partnerships for the sale of the Bank's insurance agency offerings within the Bank's banking sales channels. The clients, who range from individual customers to corporate and institutional clients, can leverage Bank's extensive market leading range of propositions and services to help build and protect their wealth and lifestyle.

PPB and BCB

PPB and BCB provides banking and other financial services to individual customers and small to medium sized enterprises. The products offered include:

- Mortgage lending – provides residential accommodation loans to individual customers.
- Vehicle and asset finances – comprises two areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market.
- Card products – provides card facilities to individuals and businesses.
- Transactional and lending products – transactions in products associated with the various points of contact channels such as ATMs, Internet, and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.

Corporate and Investment Banking (CIB)

CIB provides commercial and investment banking services to larger corporates, financial institutions, and international counter-parties. The products offered include:

- Global Markets – includes foreign exchange and debt securities trading.
- Transactional products and services – includes transactional banking and investor services.
- Investment Banking – includes project finance, advisory, structured finance, structured trade finance, corporate lending, primary markets and property finance.

Major Customers

The Bank does not have any customer that contributes more than 10% of its revenue nor a customer that constitutes more than 10% of deposits or loans (2022: None).

Notes (continued)

6 Segment information (continued)

The segment financial results and financial position*

Statement of profit and loss	Total 2023 KShs Million	Total 2022 KShs Million	CIB 2023 KShs Million	CIB 2022 KShs Million	BCB 2023 KShs Million	BCB 2022 KShs Million	PPB 2023 KShs Million	PPB 2022 KShs Million	IAM 2023 KShs Million	IAM 2022 KShs Million
Interest income	37,926	26,081	25,419	15,929	4,733	3,846	7,774	6,306	-	-
Interest expense	(12,359)	(7,182)	(12,072)	(6,097)	1,201	412	(1,490)	(1,497)	2	-
Net interest income	**25,567**	**18,899**	**13,347**	**9,832**	**5,934**	**4,258**	**6,284**	**4,809**	**2**	**-**
Fees and commission income	5,919	4,571	3,350	2,299	1,347	1,234	1,222	1,038	-	-
Fees and commission expense	(1,024)	(875)	(140)	(121)	(323)	(224)	(561)	(530)	-	-
Net fees and commission income	**4,895**	**3,696**	**3,210**	**2,178**	**1,024**	**1,010**	**661**	**508**	**-**	**-**
Trading revenue	10,247	8,818	7,326	5,378	1,737	2,040	1,095	1,400	89	-
Net income from financial instruments at fair value through profit or loss	(92)	141	(92)	(53)	-	67	-	127	-	-
Other operating income	74	38	53	30	9	4	12	4	-	-
Other gains and losses on financial instruments	(277)	(2)	(277)	(2)	-	-	-	-	-	-
Trading and other income	**9,952**	**8,995**	**7,010**	**5,353**	**1,746**	**2,111**	**1,107**	**1,531**	**89**	**-**
Total income	**40,414**	**31,590**	**23,567**	**17,363**	**8,704**	**7,379**	**8,052**	**6,848**	**91**	**-**
Credit impairment losses	(6,235)	(4,939)	(1,141)	(1,734)	(3,407)	(1,337)	(1,687)	(1,868)	-	-
Net income before operating expenses	**34,179**	**26,651**	**22,426**	**15,629**	**5,297**	**6,042**	**6,365**	**4,980**	**91**	**-**
Employee benefits expense	(8,323)	(6,966)	(4,016)	(2,587)	(2,226)	(2,138)	(1,983)	(2,241)	(98)	-
Depreciation and amortisation	(599)	(698)	(240)	(177)	(164)	(261)	(195)	(260)	-	-
Depreciation on right-of use assets	(337)	(331)	(90)	(120)	(118)	(112)	(128)	(99)	(1)	-
Other operating expenses	(8,175)	(6,478)	(4,190)	(2,502)	(1,716)	(2,246)	(2,242)	(1,730)	(27)	-
Finance costs	(5)	(15)	(5)	(10)	-	-	-	(5)	-	-
Profit before income tax	**16,740**	**12,163**	**13,885**	**10,233**	**1,073**	**1,285**	**1,817**	**645**	**(35)**	**-**
Income tax expense	(4,820)	(3,074)	(4,002)	(2,551)	(323)	(410)	(511)	(113)	16	-
Profit for the year	**11,920**	**9,089**	**9,883**	**7,682**	**750**	**875**	**1,306**	**532**	**(19)**	**-**

* The business unit statement of profit and loss has been updated to better align to how management analyses and reviews business units.
IAM unit became operational in 2023. In the previous year, the IAM business unit was reported in other segments.

Notes (continued)

6 Segment information (continued)

Statement of financial position*	Total 2023 KShs Million	Total 2022 KShs Million	CIB 2023 KShs Million	CIB 2022 KShs Million	BCB 2023 KShs Million	BCB 2022 KShs Million	PPB 2023 KShs Million	PPB 2022 KShs Million	IAM 2023 KShs Million	IAM 2022 KShs Million
Assets										
Cash and balances with Central Bank of Kenya	25,503	20,772	23,814	16,512	1,039	2,157	650	2,103	-	-
Financial assets – (FVTPL)	2,898	25,126	2,898	25,126	-	-	-	-	-	-
Financial assets – (FVOCI)	19,892	32,133	19,892	32,133	-	-	-	-	-	-
Financial assets – (amortised cost)	22,555	26,286	22,555	26,286	-	-	-	-	-	-
Derivative assets	2,250	2,259	2,250	2,259	-	-	-	-	-	-
Loans and advances to banks	95,658	30,951	94,430	21,500	1,228	4,893	-	4,558	-	-
Loans and advances to customers	260,508	235,873	167,177	144,369	39,820	38,684	53,511	52,820	-	-
Other assets and prepayments	7,373	5,993	1,656	1,252	2,103	2,169	3,614	2,572	-	-
Other equity investments	18	18	11	10	4	4	3	4	-	-
Property and equipment	2,078	1,901	684	730	663	884	731	287	-	-
Right of use assets - Land	33	36	17	22	7	7	9	7	-	-
Intangible assets	729	805	334	472	113	170	282	163	-	-
Right-of use assets	857	925	281	345	319	330	257	250	-	-
Current tax asset	-	21	-	21	-	-	-	-	-	-
Deferred tax asset	9,262	7,221	6,174	4,763	1,505	1,195	1,583	1,263	-	-
Total assets	**449,614**	**390,320**	**342,173**	**275,800**	**46,801**	**50,493**	**60,640**	**64,027**	**-**	**-**
Liabilities										
Derivative liabilities	2,570	1,687	2,570	1,687	-	-	-	-	-	-
Financial liabilities – (FVTPL)	14,071	8,001	14,071	8,001	-	-	-	-	-	-
Amounts due to banks	26,004	32,753	23,850	30,998	1,976	1,746	178	9	-	-
Customer deposits	322,211	272,144	154,289	124,661	80,015	69,375	87,907	78,108	-	-
Subordinated borrowings	12,713	10,141	7,725	6,050	2,591	1,945	2,397	2,146	-	-
Other liabilities and accruals	10,512	10,611	4,540	5,705	3,342	1,963	2,612	2,943	18	-
Current tax liability	2,168	1,469	1,541	971	308	245	319	253	-	-
Lease liabilities	1,008	1,157	619	533	298	487	91	137	-	-
Total liabilities	**391,257**	**337,963**	**209,205**	**178,606**	**88,530**	**75,761**	**93,504**	**83,596**	**18**	**-**
Equity	58,357	52,357	32,461	31,326	13,044	9,994	12,851	11,037	1	-
Inter-divisional funding	-	-	100,507	65,868	(54,773)	(35,262)	(45,715)	(30,606)	(19)	-
Total equity and liabilities	**449,614**	**390,320**	**342,173**	**275,800**	**46,801**	**50,493**	**60,640**	**64,027**	**-**	**-**

* The business unit statement of financial position has been updated to better align to how management analyses and reviews business units.
IAM unit became operational in 2023. In the previous year, the IAM business unit was reported in other segments.

Notes (continued)

6 Segment information (continued)

The Bank is domiciled in Kenya and the revenue and non-current assets by country of domicile are included in the sections below:

Statement of profit or loss	Total 2023	Total 2022	Kenya 2023	Kenya 2022	South Sudan 2023	South Sudan 2022
Interest income	37,926	26,081	37,919	26,079	7	2
Interest expense	(12,359)	(7,182)	(12,337)	(7,153)	(22)	(29)
Net interest income	**25,567**	**18,899**	**25,582**	**18,926**	**(15)**	**(27)**
Fees and commission income	5,919	4,571	4,818	3,874	1,101	697
Fees and commission expense	(1,024)	(875)	(1,018)	(873)	(6)	(2)
Net fees and commission income	**4,895**	**3,696**	**3,800**	**3,001**	**1,095**	**695**
Trading revenue and net income from financial assets at FVOCI	10,155	8,959	9,239	8,305	916	654
Other losses on financial instruments	(277)	(2)	(277)	(2)	-	-
Net other operating income	74	38	74	38	-	-
Trading and other income	**9,952**	**8,995**	**9,036**	**8,341**	**916**	**654**
Total income	**40,414**	**31,590**	**38,418**	**30,268**	**1,996**	**1,322**
Credit impairment losses	(6,235)	(4,939)	(6,224)	(4,940)	(11)	1
Employee benefits expense	(8,323)	(6,966)	(7,569)	(6,532)	(754)	(434)
Depreciation and amortisation	(599)	(698)	(576)	(680)	(23)	(18)
Depreciaiton on right-of use assets	(337)	(331)	(299)	(300)	(38)	(31)
Other operating expenses	(8,175)	(6,478)	(7,668)	(6,104)	(507)	(374)
Finance costs	(5)	(15)	-	(5)	(5)	(10)
Profit before income tax	**16,740**	**12,163**	**16,082**	**11,707**	**658**	**456**
Income tax expense	(4,820)	(3,074)	(4,622)	(2,925)	(198)	(149)
Profit for the year	**11,920**	**9,089**	**11,460**	**8,782**	**460**	**307**

Notes (continued)

6 Segment information (continued)

Statement of financial position	Total 2023	Total 2022	Kenya 2023	Kenya 2022	South Sudan 2023	South Sudan 2022
Assets						
Cash and balances with Central Bank of Kenya	25,503	20,772	16,617	14,301	8,886	6,471
Financial investments	45,345	83,545	45,345	83,545	-	-
Derivative assets	2,250	2,259	2,250	2,259	-	-
Loans and advances to banks	95,658	30,951	82,103	13,175	13,555	17,776
Loans and advances to customers	260,508	235,873	260,481	235,864	27	9
Other investments	18	18	18	18	-	-
Property, equipment and intangibles	2,840	2,742	2,739	2,673	101	69
Right-of use assets	857	925	813	840	44	85
Current tax asset	-	21	-	-	-	21
Deferred tax asset	9,262	7,221	9,181	7,206	81	15
Other assets and prepayments	7,373	5,993	7,316	5,986	57	7
Total assets	**449,614**	**390,320**	**426,863**	**365,867**	**22,751**	**24,453**
Liabilities						
Customer deposits	322,211	272,144	302,937	251,649	19,274	20,495
Amounts due to banks	26,004	32,753	25,989	32,743	15	10
Lease liability	1,008	1,157	847	882	161	275
Current tax liability	2,168	1,469	2,049	1,469	119	-
Trading liabilities	14,071	8,001	14,071	8,001	-	-
Derivative liabilities	2,570	1,687	2,570	1,687	-	-
Borrowings	12,713	10,141	12,713	10,141	-	-
Other liabilities	10,512	10,611	8,561	7,931	1,951	2,680
Total liabilities	**391,257**	**337,963**	**369,737**	**314,503**	**21,520**	**23,460**
Shareholders' equity	**58,357**	**52,357**	**57,126**	**51,364**	**1,231**	**993**
Total equity and liabilities	**449,614**	**390,320**	**426,863**	**365,867**	**22,751**	**24,453**

Notes (continued)

7 Interest income

		2023 KShs. million	2022 KShs. million
Loans and advances to customers		29,405	19,858
Financial investments – (FVOCI)		2,530	2,480
Financial investments – (amortised cost)		2,547	2,706
Loans and advances to banks		3,444	1,037
Total interest income		**37,926**	**26,081**
Interest expense			
Current accounts		(2,623)	(1,721)
Savings and term deposit accounts		(7,994)	(4,753)
Deposits and placements from other banks		(537)	(151)
Interest on borrowed funds	(Note 39)	(1,084)	(443)
Interest expense on lease liabilities		(121)	(114)
Total interest expense		**(12,359)**	**(7,182)**
Net interest income		**25,567**	**18,899**

All interest income reported above relates to financial assets not carried at fair value through profit or loss and all interest expense reported relates to financial liabilities not carried at fair value through profit or loss.

8 Fees and commission income

	2023 KShs. million	2022 KShs. million
Points of representation transaction fees	1,672	1,289
Documentation and administration fees	109	124
Electronic banking fees	1,204	678
Knowledge based and client administration fees	1,705	1,339
Card based commission	506	290
Foreign service fees	644	709
Other bank related fees and commission	79	142
	5,919	**4,571**

The net fees and commission earned by the Bank on trust and fiduciary activities where the Bank holds or invests assets on behalf of its customers is KShs. 353,397,281 (2022: KShs 356,199,136).

All net fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss.

9 Fees and commission expense

	2023 KShs. million	2022 KShs. million
Card based commission expenses	(474)	(344)
Brokerage fees	(27)	(30)
Other bank related fees and commission expenses	(523)	(501)
	(1,024)	**(875)**

Notes (continued)

10 Trading revenue

	2023 KShs. million	2022 KShs. million
Net foreign exchange income	10,247	8,750
Gain in net monetary position	-	68
	10,247	**8,818**

11 a) Net (loss)/income from financial instruments at fair value through profit or loss

	2023 KShs. million	2022 KShs. million
Fixed income – financial assets –FVTPL	(92)	141
	(92)	**141**

11 b) Other losses on financial instruments

	2023 KShs. million	2022 KShs. million
Net loss on disposal of financial assets - FVTPL	(277)	(2)
	(277)	**(2)**

12 Other operating income

	2023 KShs. million	2022 KShs. million
Other income	60	31
Gain on disposal of property and equipment	14	7
	74	**38**

13 Employee benefits expense

	2023 KShs. million	2022 KShs. million
Salaries and wages	7,717	6,451
Retirement benefit costs	606	515
	8,323	**6,966**
Included in retirement benefit costs are:		
Defined contribution scheme	587	511
National Social Security Fund	18	4
	605	**515**
Average staff numbers		
Management	420	414
Supervisory	451	417
Clerical and other categories	266	281
Total	**1,137**	**1,112**

Notes (continued)

14 Breakdown of expenses by nature

	Note	2023 KShs. million	2022 KShs. million
Profit before tax has been arrived at after charging:			
Employees benefits expense	13	8,323	6,966
Audit fees		49	40
Directors' fees	45.5.2	53	61
Franchise fees	45.8	1,221	944
Depreciation of property and equipment	30 (a)	400	415
Depreciation on right-of use assets - Land	30 (b)	3	3
Depreciation on right-of use assets	32	337	331
Amortisation of intangible assets	31	196	280

15 Finance costs

	2023	2022
Bank charges	5	15
	5	**15**

16 Income tax expense

	2023	2022
Current income tax	**6,774**	**4,637**
Current income tax charge (Note 35 (a))	7,101	4,929
South sudan tax payable (Note 35 (a))		
Previous year current income tax over-provision	(327)	(292)
Deferred income tax	**(1,954)**	**(1,563)**
Current year credit Kenya operations (Note 34 (a))	(1,885)	(1,565)
Current year charge/(credit) -foreign operations (Note 34 (b))	(69)	2
Income tax expense	**4,820**	**3,074**

Reconciliation of tax expense to expected tax base based on accounting profit:

The tax on the profit before tax differs from the theoretical amount using the statutory income tax rate as follows:

	2023 KShs. million	2022 KShs. million
Profit before income tax	**16,740**	**12,163**
Tax at statutory tax rate of 30% (2022: 30%)	5,022	3,649
Tax effect of:		
Income not subjected to tax	(299)	(545)
Expenses not deductible for tax purposes	497	304
Previous year current income tax over-provision	(327)	(292)
Tax paid in other jurisdiction	(73)	(42)
Income tax expense	**4,820**	**3,074**

Notes (continued)

17 Earnings per share – basic and diluted

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2023	2022
Earnings (Profit after tax)		
Earnings for the purposes of basic earnings per share (KShs. million)	11,920	9,089
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share ('million)	171	171
Earnings per share (KShs) basic and diluted	**69.71**	**53.15**

There were no dilutive potential ordinary shares as at 31 December 2023 or 31 December 2022. Therefore, diluted earnings per share are the same as basic earnings per share.

18 Dividend

	2023	2022
The calculation of dividends per share is based on:		
Dividends for the year attributable to ordinary shareholders:		
Interim dividend paid (KShs. million)	454	-
Final proposed dividend (KShs. million)	5,335	5,100
	5,789	**5,100**
Number of ordinary shares in issue (million)	171	171
Dividend per share-interim	2.65	-
Dividend per share-final	31.20	29.90
Total dividends per share – KShs	**33.85**	**29.90**

Proposed dividends are presented within retained earnings until they have been approved at an Annual General Meeting.

During the year interim dividend of KShs 2.65 per share was paid translating to KShs 454,095,000 (2022: KShs. nil).

A final dividend per share in respect of the year ended 31 December 2023 of KShs 31.20 (2022: KShs 29.90) per share amounting to a total of KShs 5,335,000,000 (2022: KShs 5,100,000,000) is to be proposed at the next Annual General Meeting. These financial statements do not reflect this as a dividend payable.

Total dividend for the year is therefore KShs 33.85 (2022: KShs 29.90) per share translating to KShs 5,789,095,000 (2022: KShs 5,100,000,000).

Payment of dividends is subject to withholding tax at a rate of either 5% for resident and 15% for non-resident shareholders. Dividend paid to resident shareholders who own more than 12.5% shareholding are exempt from withholding tax.

Notes (continued)

19 Classification of assets and liabilities

Accounting classifications and fair values of assets and liabilities

The table below categorises the Bank's assets and liabilities as at 31 December 2023 between those that are financial and non-financial.

All financial assets and liabilities have been classified according to their measurement category with disclosure and their fair value.

Year ended 31 December 2023	Fair value through profit and loss - default KShs. million	Fair value through profit or loss - designated KShs. million	Amortised cost KShs. million	Fair value through OCI KShs. million	Other non-financial assets/liabilities	Total carrying amount KShs. million	Fair value KShs. Million
Assets							
Cash and balances with Central Bank of Kenya	21,077	-	4,426	-	-	25,503	25,503
Financial assets –FVTPL	2,898	-	-	-	-	2,898	2,898
Financial assets – FVOCI	-	-	-	19,892	-	19,892	19,892
Financial assets – amortised cost	-	-	22,555	-	-	22,555	14,455
Derivative assets	2,250	-	-	-	-	2,250	2,250
Loans and advances to banks	-	-	95,658	-	-	95,658	65,954
Loans and advances to customers	-	-	260,508	-	-	260,508	215,576
Other financial assets	-	-	5,671	-	-	5,671	5,671
Investment securities	18	-	-	-	-	18	18
Other non - financial assets	-	-	-	-	14,661	14,661	-
	26,243	**-**	**388,818**	**19,892**	**14,661**	**449,614**	**352,217**
Liabilities							
Deposits from customers	-	-	(322,211)	-	-	(322,211)	(259,326)
Deposits from banks	-	-	(26,004)	-	-	(26,004)	(19,161)
Derivative liabilities	(2,570)	-	-	-	-	(2,570)	(2,570)
Trading liabilities	(14,071)	-	-	-	-	(14,071)	(14,071)
Borrowings	-	-	(12,713)	-	-	(12,713)	(8,255)
Other financial liabilities	-	-	(7,683)	-	-	(7,683)	(7,683)
Other non - financial liabilities	-	-	-	-	(6,005)	(6,005)	-
	(16,641)	**-**	**(368,611)**	**-**	**(6,005)**	**(391,257)**	**(311,066)**

Notes (continued)

19 Classification of assets and liabilities (continued)

Accounting classifications and fair values of assets and liabilities (continued)

Year ended 31 December 2022	Fair value through profit and loss - default KShs. million	Fair value through profit or loss - designated KShs. million	Amortised cost KShs. million	Fair value through OCI KShs. million	Other non-financial assets/liabilities KShs. million	Total carrying amount KShs. million	Fair value KShs. million
Assets							
Cash and balances with Central Bank of Kenya	12,385	-	8,387	-	-	20,772	20,772
Financial assets – FVTPL	25,126	-	-	-	-	25,126	25,126
Financial assets – FVOCI	-	-	-	32,133	-	32,133	32,133
Financial assets – amortised cost	-	-	26,286	-	-	26,286	19,517
Derivative assets	2,259	-	-	-	-	2,259	2,259
Loans and advances to banks	-	-	30,951	-	-	30,951	27,231
Loans and advances to customers	-	-	235,873	-	-	235,873	243,795
Other financial assets	-	-	5,993	-	-	5,993	5,993
Investment securities	18	-	-	-	-	18	18
Other non - financial assets	-	-	-	-	10,909	10,909	-
	39,788	**-**	**307,490**	**32,133**	**10,909**	**390,320**	**376,844**
Liabilities							
Deposits from customers	-	-	(272,144)	-	-	(272,144)	(248,008)
Deposits from banks	-	-	(32,753)	-	-	(32,753)	(8,173)
Derivative liabilities	(1,687)	-	-	-	-	(1,687)	(1,687)
Trading liabilities	(8,001)	-	-	-	-	(8,001)	(8,001)
Borrowings	-	-	(10,141)	-	-	(10,141)	(10,523)
Other financial liabilities	-	-	(8,442)	-	-	(8,442)	(8,442)
Other non - financial liabilities	-	-	-	-	(4,795)	(4,795)	-
	(9,688)	**-**	**(323,480)**	**-**	**(4,795)**	**(337,963)**	**(284,834)**

Notes (continued)

20 Cash and balances with Central Bank of Kenya

	2023 KShs. million	2022 KShs. million
Cash in hand	4,177	3,704
Balances with Central Bank of Kenya	21,326	17,068
	25,503	**20,772**

The Bank is required to maintain a prescribed minimum cash reserve ratio (CRR) including cash in hand and balances with Central Bank of Kenya. The minimum cash reserve is non-interest earning and is based on the value of deposits as adjusted for Central Bank of Kenya requirements. At 31 December 2023, the cash reserve requirement was 4.25% of the eligible deposits (2022: 4.25%).

The cash reserve requirement balance for the year ended 31 December 2023 is KShs.13,259,326,588 (2022: KShs 10,111,774,505).The Central Bank of Kenya allows a daily minimum of 3% (2022: 3%) of eligible deposits when the average total reserving for the month is above the CRR. The applicable daily minimum for the Bank therefore is Kshs 9,359,524,650 as at 31 December 2023 (2022: KShs 7,137,723,180). These balances are restricted. The Bank complied with the CRR requirement throughout the reporting period.

21 Financial assets and liabilities at fair value through profit and loss (FVTPL)

a) Financial assets – (FVTPL)	2023 KShs. million	2022 KShs. million
Government treasury bills and bonds	2,898	25,126
	2,898	**25,126**
Maturity analysis		
Maturing within 1 month	5	143
Maturing after 1 month but within 6 months	2	24,321
Maturing after 6 months but within 12 months	37	-
Maturing after 12 months but within 5 years	2,675	30
Maturing after 5 years	179	632
	2,898	**25,126**

The maturities represent periods to contractual redemption of financial assets fair value through profit or loss recorded. Financial assets fair value through profit or loss had a redemption value at 31 December 2023 of KShs 2,974,921,000 (2022: KShs 25,713,346,240). The weighted average effective interest yield on debt securities held for trading at 31 December 2023 was 9.54% (2022: 9.11%).

b) Financial liabilities - (FVTPL)	2023 KShs. million	2022 KShs. million
Unlisted	14,071	8,001
	14,071	**8,001**
Maturity analysis		
Maturing within 1 month	88	-
Maturing after 1 month but within 6 months	6,316	1,741
Maturing after 6 months but within 12 months	3,044	135
Maturing after 12 months but within 5 years	4,055	5,474
Maturing after 5 years	568	651
	14,071	**8,001**

The maturities represent periods to contractual redemption of trading liabilities recorded. Dated trading liabilities had a redemption value at 31 December 2023 of KShs.14,395,175,000 (2022:KShs 7,905,003,998). The weighted average effective interest cost on debt securities held for trading at 31 December 2023 was 10.12% (2022: 11.33%).

Notes (continued)

22 Financial investments – (FVOCI)

	2023 KShs. million	2022 KShs. million
Financial investments – (FVOCI)	19,892	32,062
Pledged assets – (FVOCI)	-	71
	19,892	**32,133**

22 (a) Financial assets – (FVOCI)

	2023 KShs. million	2022 KShs. million
Debt securities – at FVOCI:		
Listed	7,964	5,896
Unlisted	11,934	26,170
Expected credit loss (Note 22.1)	(6)	(4)
	19,892	**32,062**
Comprising:		
Government bonds	7,964	5,895
Government treasury bills	11,768	25,952
Corporate Bonds	160	215
Net financial assets – (FVOCI)	**19,892**	**32,062**
Maturity analysis		
Maturing within 1 month	978	16,001
Maturing after 1 month but within 6 months	11,805	10,249
Maturing after 6 months but within 12 months	188	-
Maturing after 12 months but within 5 years	6,921	5,812
	19,892	**32,062**

Financial investment securities had a redemption value at 31 December 2023 of KShs. 20,270,000,000 (2022: KShs.32,339,500,000).The weighted average effective interest cost on debt securities held for trading at 31 December 2023 was 15.66% (2022: 9.84%).

22 (b) Pledged assets – (FVOCI)

	2023 KShs. million	2022 KShs. million
Debt securities	-	71
	-	**71**
Maturity analysis		
Maturing after 1 month but within 6 months	-	18
Maturing after 12 months but within 5 years	-	46
Maturing after 5 years	-	7
	-	**71**

Dated pledged assets at fair value through OCI had a redemption value at 31 December 2023 of KShs. nil (2022: KShs. nil).

The weighted average effective interest yield on investment securities at FVOCI on 31 December 2023 was nil (2022:nil).

These transactions are conducted under terms that are usual and customary to security lending, and security borrowings and lending activities.

Notes (continued)

22.1 Reconciliation of expected credit losses for debt financial investments measured at fair value through OCI:

	Opening ECL 1 January 2023	Total transfers between stages	Statement of profit or loss movements			Net ECL raised/ (released)[1]	Exchange and other movements	Closing ECL 31 December 2023
			ECL on new exposure raised	Subsequent changes in ECL	Change in ECL due to derecognition			
Financial investments at FVOCI	**KShs' million**	**KShs' million**	**KShs' million**	**KShs' million**	**KShs' million**	**KShs' million**	**KShs' million**	**KShs' million**
Debt securities	**4**	**-**	**5**	**(1)**	**(2)**	**2**	**-**	**6**
Stage 1	4	-	5	(1)	(2)	**2**	-	6
Total	**4**	**-**	**5**	**(1)**	**(2)**	**2**	**-**	**6**

1 Net impairments raised/(released) less recoveries of amounts written off in previous years equals statement of profit or loss impairment charge (refer credit impairment charges note).

Reconciliation of fair value through OCI reserve for debt financial investments measured at fair value through OCI

31 December 2023	Balance at beginning of the year	Reclassificat ions	Net change in fair value	Realised fair value adjustments and reversal to profit or loss	Total fair value movements	Exchange and other movements	Balance at end of the year
	KShs	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Financial investments	**45**	**-**	**144**	**-**	**144**	**-**	**189**
Debt securities	45	-	144	-	**144**	-	189

Notes (continued)

22.1 Reconciliation of expected credit losses for debt financial investments measured at fair value through OCI (continued)

	Opening ECL 1 January 2022	Total transfers between stages	Statement of profit or loss movements			Net ECL raised/ (released)[1]	Impairment accounts written-off	Closing ECL 31 December 2022
			ECL on new exposure raised	Subsequent changes in ECL	Change in ECL due to derecognition			
	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million
Financial investments at FVOCI								
Debt securities	**2**	**-**	**5**	**(1)**	**(2)**	**2**	**-**	**4**
Stage 1	2	-	5	(1)	(2)	**2**	-	4
Total	**2**	**-**	**5**	**(1)**	**(2)**	**2**	**-**	**4**

Reconciliation of fair value through OCI reserve for debt financial investments measured at fair value through OCI

31 December 2022	Balance at beginning of the year	Reclassifications	Net change in fair value	Realised fair value adjustments and reversal to profit or loss	Total fair value movements	Exchange and other movements	Balance at end of the year
	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million
Financial investments	**(13)**	**-**	**58**	**-**	**58**	**-**	**45**
Debt securities	(13)	-	58	-	**58**	-	45

Notes (continued)

23 Financial investments – (amortised cost)

	2023 KShs. million	2022 KShs. million
Pledged assets – (amortised cost)	2,600	3,497
Financial assets – (amortised cost)	19,955	22,789
	22,555	**26,286**

a) Pledged assets – (amortised cost)

	2023	2022
Amortised cost debt securities	2,673	3,498
Expected loss	(73)	(1)
	2,600	**3,497**
Maturity analysis		
Maturing after 1 months but within 6 months	690	500
Maturing after 6 months but within 12 months	-	-
Maturing after 12 months but within 5 years	-	2,497
Maturing after 5 years	1,910	500
	2,600	**3,497**

Dated pledged assets at amortized cost had a redemption value at 31 December 2023 of KShs. 2,625,600,000 (2022: KShs 3,500,000,000).The weighted average effective interest yield on pledged assets on 31 December 2023 was 16.15% (2022: 11.49%).

These transactions are conducted under terms that are usual and customary to security lending, and security borrowings and lending activities.

b) Financial assets – (amortised cost)

	2023 KShs. million	2022 KShs. million
Debt securities:		
Listed	19,965	22,842
Gross financial investments at amortised cost	**19,965**	**22,842**
Allowances for impairments		
Expected credit loss for financial investments measured at amortised cost (IFRS 9)	(10)	(53)
Credit impairment allowances	**(10)**	**(53)**
Net financial investments at amortised cost	**19,955**	**22,789**
Comprising:		
Government bonds	19,965	22,842
	19,965	**22,842**
Maturity analysis:		
Maturing within 1 month	1,037	-
Maturing after 1 month but within 6 months	11,818	-
Maturing after 6 months but within 12 months	188	-
Maturing after 12 months but within 5 years	6,922	16,495
Maturing after 5 years	-	6,347
	19,965	**22,842**

Dated held to collect assets had a redemption value at 31 December 2023 of KShs 19,540,235,000 (2022: KShs 22,657,142,000).

The weighted average effective interest yield on held to collect investment securities at 31 December 2023 was 15.69% (2022: 12.68%).

Notes (continued)

23 Financial investments – (amortised cost) (continued)

Reconciliation of expected credit losses for debt financial investments measured at amortised cost

	Opening ECL 1 January 2023	Total transfers between stages	Statement of profit or loss movements: ECL on new exposure raised	Statement of profit or loss movements: Subsequent changes in ECL	Statement of profit or loss movements: Change in ECL due to derecognition	Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2023
	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million
Financial Investments Amortised cost									
Sovereign	**53**	**-**	**24**	**12**	**(6)**	**30**	**-**	**-**	**83**
Stage 1	53	-	24	12	(6)	30	-	-	83
Pledged assets	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**
Stage 1	1	-	-	-	-	-	-	(1)	-
Total	**54**	**-**	**24**	**12**	**(6)**	**30**	**-**	**(1)**	**83**

1 Net impairments raised/(released) less recoveries of amounts written off in previous years equals statement of profit or loss impairment charge (refer to the credit impairment charges note).

Notes (continued)

23 Financial investments – (amortised cost) (continued)

Reconciliation of expected credit losses for debt financial investments measured at amortised cost (continued)

	Opening ECL 1 January 2022	Total transfers between stages	Statement of profit or loss movements: ECL on new exposure raised	Statement of profit or loss movements: Subsequent changes in ECL	Statement of profit or loss movements: Change in ECL due to derecognition	Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2022
	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million
Sovereign	**23**	**-**	**24**	**12**	**(6)**	**30**	**-**	**-**	**53**
Stage 1	23	-	24	12	(6)	30	-	-	53
Financial Investments Amortised cost									
Sovereign	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Stage 1	1	-	-	-	-	-	-	-	1
Total	**24**	**-**	**24**	**12**	**(6)**	**30**	**-**	**-**	**54**

1 Net impairments raised/(released) less recoveries of amounts written off in previous years equals statement of profit or loss impairment charge (refer to the credit impairment charges note).

Notes (continued)

24 Derivative assets and derivative liabilities

All derivatives are classified as held-for-trading.

24.1 Use and measurement of derivative instruments

In the normal course of business, the Bank enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation and for credit exposures. Derivative instruments used by the Bank in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of equities.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

The fair value of all derivatives is recognised in the statement of financial position and is only netted to the extent that there is both a legal right of set-off and an intention to settle on a net basis, or the intention to realise the derivative asset and settle the derivative liability simultaneously.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.

The major types of swap transactions undertaken by the Bank are as follows:

a) Interest rate swap contracts which generally entail the contractual exchange of fixed and floating interest payments in a single currency, based on a notional amount and an interest reference rate.

b) Options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified amount of a financial instrument or commodity at a predetermined price. The seller receives a premium from the purchaser for this right. Options may be traded Over The Counter (OTC) or on a regulated exchange.

c) Forwards and futures are contractual obligations to buy or sell financial instruments on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the OTC market, whereas futures are standardised contracts transacted on regulated exchanges.

24.2 Derivatives held-for-trading

The Bank transacts derivative contracts to address client demand both as a market maker in the wholesale markets and in structuring tailored derivatives for clients. The Bank also takes proprietary positions for its own account. Trading derivative products include the following derivative instruments:

a) Foreign exchange derivatives

Foreign exchange derivatives are primarily used to economically hedge foreign currency risks on behalf of clients and for the bank’s own positions. Foreign exchange derivatives primarily consist of foreign exchange forwards and swaps, foreign exchange futures and foreign exchange options.

b) Interest rate derivatives

Interest rate derivatives are primarily used to modify the volatility and interest rate characteristics of interest-earning assets and interest-bearing liabilities on behalf of clients and for the Bank’s own positions. Interest rate derivatives primarily consist of bond options, caps and floors, forwards, options, swaps and swap options.

Notes (continued)

24 Derivative assets and derivative liabilities (continued)

24.3 Day one profit or loss

Where the fair value of an instrument differs from the transaction price, and the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation model whose variables include only data from observable markets, the difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately. If the fair value of the financial instrument can not be evidenced by comparison with other observable current market transactions in the same instrument or non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the valuation model is deferred and subsequently recognised in accordance with the Bank's accounting policies (refer to accounting policy 2.5 – Financial instruments).

24.4 Fair values

The fair value of a derivative financial instrument represents, for quoted instruments in an active market, the quoted market price and, for an unquoted instrument, the present value of the positive and/or negative cash flows which would have occurred if the rights and obligations arising from that instrument were closed out in an orderly marketplace transaction at the reporting date.

24.5 Notional amount

The contract/notional amount is the sum of the absolute value of all bought and sold contracts. The notional amounts have been translated at the closing exchange rate at the reporting date where cash flows are receivable in foreign currency. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the bank's participation in derivative contracts.

	2023			2022		
	Fair values			Fair values		
	Notional contract amount KShs. million	Assets KShs. million	Liabilities KShs. million	Notional contract amount KShs. million	Assets KShs. million	Liabilities KShs. million
Foreign exchange derivatives						
Currency forwards	6,473	312	104	41,133	937	854
Currency swaps	81,851	1,578	1,620	43,988	488	217
Currency options	2,565	100	147	8,025	290	37
Total over-the-counter derivatives	**90,889**	**1,990**	**1,871**	**93,146**	**1,715**	**1,108**
Interest rate derivatives						
Cross currency interest rate swaps	2,411	260	699	38,617	544	579
Total over-the-counter derivatives	**2,411**	**260**	**699**	**38,617**	**544**	**579**
Total derivative assets held for trading	**93,300**	**2,250**	**2,570**	**131,763**	**2,259**	**1,687**
Current	90,887	2,075	2,044	99,905	1,673	1,259
Non-current	2,413	175	526	31,858	586	428
Total	**93,300**	**2,250**	**2,570**	**131,763**	**2,259**	**1,687**

Notes (continued)

25 Loans and advances to banks

	Note	2023 KShs. million	2022 KShs. million
Balances due from banks		5,117	15,848
Balances due from group banks	45.1	90,542	15,103
Gross loans and advances to banks		**95,659**	**30,951**
Impairment Stages 1 & 2 (performing loans)	25.1	(1)	-
Impairment Stage 3 (non-performing loans)	25.1	-	-
Credit impairment allowances		**(1)**	**-**
Net loans and advances to banks		**95,658**	**30,951**
Maturity analysis:			
Redeemable on demand		5,452	8,648
Maturing within 1 month		45,731	18,847
Maturing after 1 month but within 12 months		39,565	-
Maturing after 12 month but within 5 years		-	1,750
Maturing after 5 years		4,910	1,706
Net loans and advances to banks		**95,658**	**30,951**

Notes (continued)

25 Loans and advances to banks (continued)

25.1 Reconciliation of expected credit losses for loans and advances to banks measured at amortised cost:

	Opening ECL 1 January 2023	Total transfers between stages	Statement of profit or loss movements				Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2023
			ECL on new exposure raised	Change in ECL due to modifications	Subsequent changes in ECL	Change in ECL due to derecognition				
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
Bank	**-**	**-**	**(1)**	**-**	**-**	**-**	**(1)**	**-**	**-**	**(1)**
Stage 1	-	-	(1)	-	-	-	(1)	-	-	(1)
Total	**-**	**-**	**(1)**	**-**	**-**	**-**	**(1)**	**-**	**-**	**(1)**

1 Net impairments raised/(released) less recoveries of amounts written off in previous years equals statement of profit or loss impairment charge (refer credit impairment charges note).

	Opening ECL 1 January 2022	Total transfers between stages	Statement of profit or loss movements				Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2022
			ECL on new exposure raised	Change in ECL due to modifications	Subsequent changes in ECL	Change in ECL due to derecognition				
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
Bank	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**
Stage 1	1	-	-	-	-	-	-	-	(1)	-
Total	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**

Notes (continued)

26 Loans and advances to customers

26.1 Net loans and advances

	2023 KShs. million	2022 KShs. million
Home loans/mortgages	40,794	37,832
Vehicle and asset finance (Note 26.4)	13,047	10,030
Overdraft and other demand lending	32,518	15,155
Term lending	192,563	192,725
Card lending	801	722
Gross loans and advances to customers	**279,723**	**256,464**
Allowances for impairments		
Expected credit loss for loans and advances measured at amortised cost (IFRS 9)	(19,215)	(20,591)
Credit impairment allowances	**(19,215)**	**(20,591)**
Net loans and advances	**260,508**	**235,873**
Maturity analysis:		
Redeemable on demand	5,670	17,683
Maturing within 1 month	50,921	26,284
Maturing after 1 month but within 6 months	55,387	51,253
Maturing after 6 months but within 12 months	6,674	7,234
Maturing after 12 months but within 5 years	78,251	75,485
Maturing after 5 years	63,605	57,934
Net loans and advances	**260,508**	**235,873**

The weighted average effective interest rate on loans and advances to customers as at 31 December 2023 was 12.33% (2022: 9.70%). The Bank extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment sales and overdrafts.

Notes (continued)

26 Loans and advances to customers (continued)

26.2 Net loans and advances

Reconciliation of expected credit losses for loans and advances to customers measured at amortised cost:

	Opening ECL 1 January 2023	Total transfers between stages	Statement of profit or loss movements			Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2023	Interest in suspense movement	Total
			ECL on new exposure raised	Subsequent changes in ECL	Change in ECL due to derecognition						
Customers	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**
Mortgage loans	**2,096**	**-**	**26**	**428**	**-**	**454**	**(131)**	**(16)**	**2,403**	**(27)**	**2,376**
Stage 1	78	65	9	(75)	-	(1)	-	-	77	-	77
Stage 2	319	(46)	16	103	-	73	-	-	392	-	392
Stage 3	1,699	(19)	1	400	-	382	(131)	(16)	1,934	(27)	1,907
Vehicle and asset finance	**1,367**	**-**	**328**	**99**	**-**	**427**	**(604)**	**(108)**	**1,082**	**(114)**	**968**
Stage 1	71	17	46	(43)	-	20	-	-	91	-	91
Stage 2	234	4	23	211	-	238	-	-	472	-	472
Stage 3	1,062	(21)	259	(69)	-	169	(604)	(108)	519	(114)	405
Card debtors	**59**	**-**	**-**	**81**	**-**	**81**	**(61)**	**-**	**79**	**-**	**79**
Stage 1	19	-	-	-	-	-	-	-	19	-	19
Stage 2	19	(1)	-	16	-	15	-	-	34	-	34
Stage 3	21	1	-	65	-	66	(61)	-	26	-	26
Other loans and advances	**8,826**	**-**	**814**	**3,794**	**-**	**4,608**	**(3,642)**	**(270)**	**9,522**	**(12)**	**9,510**
Stage 1	429	10	234	(196)	-	48	-	5	482	-	482
Stage 2	1,159	(203)	292	20	-	109	-	(190)	1,078	-	1,078
Stage 3	7,238	193	288	3,970	-	4,451	(3,642)	(85)	7,962	(12)	7,950
Corporate	**8,243**	**-**	**8,054**	**(413)**	**(5,895)**	**1,746**	**(4,052)**	**746**	**6,683**	**(401)**	**6,282**
Stage 1	789	-	722	36	(789)	(31)	-	(1)	757	-	757
Stage 2	158	-	50	(329)	(151)	(430)	-	325	53	-	53
Stage 3	7,296	-	7,282	(120)	(4,955)	2,207	(4,052)	422	5,873	(401)	5,472
Total	**20,591**	**-**	**9,222**	**3,989**	**(5,895)**	**7,316**	**(8,490)**	**352**	**19,769**	**(554)**	**19,215**

1 Net impairments raised/(released) less recoveries of amounts written off in previous years equals statement of profit or loss impairment charge (refer credit impairment charges note).

Notes (continued)

26 Loans and advances to customers (continued)

26.2 Net loans and advances (continued)

Reconciliation of expected credit losses for loans and advances to customers measured at amortised cost (continued)

	Opening ECL 1 January 2022	Total transfers between stages	Statement of profit or loss movements			Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2022	Interest in suspense movement	Total
			ECL on new exposure raised	Subsequent changes in ECL	Change in ECL due to derecognition						
Customers	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**
Mortgage loans	**1,721**	**-**	**183**	**224**	**-**	**407**	**(51)**	**10**	**2,087**	**9**	**2,096**
Stage 1	32	27	7	(32)	-	2	-	44	78	-	78
Stage 2	392	(29)	12	1	-	(16)	-	(57)	319	-	319
Stage 3	1,297	2	164	255	-	421	(51)	23	1,690	9	1,699
Vehicle and asset finance	**2,396**	**-**	**216**	**(229)**	**-**	**(13)**	**(564)**	**(246)**	**1,573**	**(206)**	**1,367**
Stage 1	77	39	30	(74)	-	(5)	-	(1)	71	-	71
Stage 2	367	(38)	24	(142)	-	(156)	-	23	234	-	234
Stage 3	1,952	(1)	162	(13)	-	148	(564)	(268)	1,268	(206)	1,062
Card debtors	**62**	**-**	**3**	**28**	**-**	**31**	**(40)**	**6**	**59**	**-**	**59**
Stage 1	23	14	2	(19)	-	(3)	-	(1)	19	-	19
Stage 2	51	(16)	1	(12)	-	(27)	-	(5)	19	-	19
Stage 3	(12)	2	-	59	-	61	(40)	12	21	-	21
Other loans and advances	**6,063**	**-**	**2,521**	**449**	**-**	**2,970**	**(752)**	**399**	**8,680**	**146**	**8,826**
Stage 1	389	41	229	(187)	-	83	-	(43)	429	-	429
Stage 2	952	(198)	193	429	-	424	-	(217)	1,159	-	1,159
Stage 3	4,722	157	2,099	207	-	2,463	(752)	659	7,092	146	7,238
Corporate	**5,386**	**-**	**780**	**1,715**	**(617)**	**1,878**	**-**	**232**	**7,496**	**747**	**8,243**
Stage 1	569	63	528	(9)	(362)	220	-	-	789	-	789
Stage 2	425	(17)	146	(322)	(221)	(414)	-	147	158	-	158
Stage 3	4,392	(46)	106	2,046	(34)	2,072	-	85	6,549	747	7,296
Total	**15,628**	**-**	**3,703**	**2,187**	**(617)**	**5,273**	**(1,407)**	**401**	**19,895**	**696**	**20,591**

Notes (continued)

26 Loans and advances to customers (continued)

26.3 Loans impairment charge

	2023 KShs. million	2022 KShs. million
Loans impairment charge for financial assets	31	32
Loans impairment for customer loans (note 26.2)	7,316	5,273
Loans impairment credit for performing bank loans (Note 25.1)	1	(1)
Loans impairment for non-performing off balance sheet letters of credit and guarantees (Note 44.3)	-	(40)
Loans impairment for performing off balance sheet letters of credit and guarantees (Note 44.3)	(24)	(3)
Amounts recovered and cured during the year	(1,089)	(322)
Net impairment charge on loans and advances	**6,235**	**4,939**

The Directors are of the opinion that net recoverable amounts are reasonable and are expected to be realised based on past experience.

26.4 Vehicle and asset finance

The Bank holds contracts with customers where the Bank finances the purchase of assets under a series of contracts which transfer title to the Bank as security for the loan. The Bank receives the loan repayments and sets off the repayments against the principal loan and interest.

	2023 KShs. million	2022 KShs. million
Maturity analysis:		
Not later than 1 year	1,058	1,390
Later than 1 year and not later than 5 years	11,396	8,334
Later than 5 years	593	306
	13,047	**10,030**

Notes (continued)

26 Loans and advances to customers (continued)

26.5 Loans and advances to employees

The aggregate amount of loans and advances to employees on the statement of financial position is:

	2023 KShs. million	2022 KShs. million
At start of year	4,290	4,204
New loans issued	1,430	1,377
Interest	597	518
Loan repayments	(2,419)	(1,809)
At end of year	**3,898**	**4,290**

27 Other assets and prepayments

Uncleared effects	4,962	4,079
Other assets and prepayments	537	742
Off market loan adjustment	1,057	671
Due from group companies (Note 45.6)	544	238
Other receivables	273	263
	7,373	**5,993**

The off-market adjustment relates to the prepaid benefit granted to staff, being the difference between the fair value of the staff loans and the initial cash outflow. The fair value of future cash flows are discounted at a market related rate. The asset represents the Bank's right to receive future service from employees.

28 Investment in subsidiaries

Investment in subsidiary relates to 100% ownership of Stanbic Bank Nominees Limited amounting to Kshs. 2,000.

Notes (continued)

28 Investment in subsidiaries (continued)

Stanbic Nominees Limited was dormant during the two financial years.

Stanbic Kenya Foundation Limited, a limited by guaratee company, is a wholly owned subsidiary of the Bank.

The principal place of business for the subsidiaries is Stanbic Bank Centre, Chiromo Road.

There were no significant restrictions on the Bank's ability to access the assets and settle liabilities of the subsidiaries. The total amount disclosed as investment in a subsidiary is a non-current asset.

29 Other investments

	2023 KShs. million	2022 KShs. million
Unquoted:		
Equity investment at fair value through profit and loss (default)	18	18
At 31 December	**18**	**18**

The investment is in Anglo African Property Holding Limited where the Bank holds a beneficial interest of 1%. The investment is unquoted and its carrying value (cost) is estimated to approximate the fair value.

30 a) Property and equipment

	Premises KShs. million	Equipment Furniture & Fittings KShs. million	Motor Vehicles KShs. million	Work in Progress (WIP) KShs. million	Total KShs. million
31 December 2023*					
Opening net carrying amount	215	1,653	27	6	**1,901**
Additions	-	588	7	20	**615**
Disposals	-	(7)	(39)	-	**(46)**
Depreciation charge on disposal	-	7	39	-	**46**
Translation differences	-	(35)	(2)	(1)	**(38)**
Depreciation charge	(13)	(380)	(7)	-	**(400)**
Closing net carrying amount	**202**	**1,826**	**25**	**25**	**2,078**
At 31 December 2023					
Cost	388	5,577	110	25	**6,100**
Accumulated depreciation	(186)	(3,751)	(85)	-	**(4,022)**
Net carrying amount	**202**	**1,826**	**25**	**25**	**2,078**

**South Sudan was assessed to have ceased being hyperinflationary as at 31 December 2023 and as such IAS 29 was not applicable as at 31 December 2023.*

Notes (continued)

30 a) Property and equipment (continued)

	Premises KShs. million	Equipment Furniture & Fittings KShs. million	Motor Vehicles KShs. million	Work in Progress (WIP) KShs. million	Total KShs. million
31 December 2022*					
Opening net carrying amount	**228**	**1,625**	**17**	**45**	**1,915**
Additions	-	454	23	-	**477**
Transfer from work in progress	-	29	-	(29)	**-**
Impairment	-	-	-	(9)	**(9)**
Disposals	-	(11)	(18)	-	**(29)**
Depreciation charge on disposal	-	9	18	-	**27**
Translation differences	-	(64)	(3)	(1)	**(68)**
Depreciation charge	-13	(392)	(10)	-	**(415)**
Hyper inflation adjustment	-	3	-	-	**3**
Closing net carryig value	**215**	**1,653**	**27**	**6**	**1,901**
At 31 December 2022					
Cost	388	5,031	144	6	**5,569**
Accumulated depreciation	(173)	(3,378)	(117)	-	**(3,668)**
Net carrying amount	**215**	**1,653**	**27**	**6**	**1,901**

**South Sudan was considered Hyperinflationary in 2022 and IAS 29 was applicable as at 31 December 2022.*

Work in progress is composed of refurbishments and equipment for branches and projects that had not been completed as at year-end. The total amount disclosed as property and equipment is non-current. As at 31 December 2023 and 31 December 2022, there were no items of property and equipment pledged by the Bank to secure liabilities.

Revaluation of land and buildings

The revaluation reserve in equity relates to the value of the Stanbic office in Chiromo at the point of merger between CfC Bank and Stanbic Bank in 2008. The fair value of the properties was determined using the market comparable method. This means that valuations performed by the valuer were based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property.

30 b) Right-of-use assets - land

	2023 KShs. million	2022 KShs. million
Cost		
At start and end of year	85	85
Amortisation		
At start of year	(49)	(46)
Charge for the year	(3)	(3)
At end of year	(52)	(49)
Net carrying amount as at 31 December	33	36

This relates to land leased by the Bank from the Government of Kenya for a lease term period of 99 years.

Notes (continued)

31 Intangible assets

Year ended 31 December 2023	Work in progress KShs. million	Computer Software KShs. million	Total KShs. million
Cost			
At start of year	86	**3,772**	**3,858**
Additions	122	-	**122**
Transfer from work in progress	(21)	21	**-**
Translation differences	(2)	-	**(2)**
At end of year	**185**	**3,793**	**3,978**
Amortisation			
At start of year	-	(3,053)	**(3,053)**
Amortisation for the year	-	(196)	**(196)**
Translation differences	-	-	**-**
At end of year	**-**	**(3,249)**	**(3,249)**
Net carrying amount at end of year	**185**	**544**	**729**
At 31 December 2023			
Cost	185	3,793	**3,978**
Accumulated amortisation	-	(3,249)	**(3,249)**
Net carrying amount	**185**	**544**	**729**

Year ended 31 December 2022			
Cost			
At start of year	**371**	3,332	**3,703**
Additions	25	131	**156**
Transfer from work in progress	(309)	309	**-**
Translation differences	(1)	-	**(1)**
At end of year	**86**	**3,772**	**3,858**
Amortisation			
At start of year	-	(2,773)	**(2,773)**
Amortisation for the year	-	(280)	**(280)**
Translation differences	-	-	**-**
At end of year	**-**	**(3,053)**	**(3,053)**
Net carrying amount	**86**	**719**	**805**
At 31 December 2022			
Cost	86	3,772	**3,858**
Accumulated amortisation	-	(3,053)	**(3,053)**
Net carrying amount	**86**	**719**	**805**

Notes (continued)

31 Intangible assets (continued)

As the functional currency of Stanbic Bank South Sudan Branch is the currency of a hyperinflationary economy, intangible assets relating to this branch are hyperinflated by applying the change in the general price indices from the date of acquisition to the current reporting date.

Amortisation relating to intangible assets of Stanbic Bank South Sudan Branch is based on the hyperinflated amounts, which have been adjusted for the effects of hyperinflation.

The total amount disclosed as intangible assets is non-current and relates to computer software. Work in progress relates to computer software for upgrades in core banking and the flow credit workflow system had not been completed as at year end.

As at 31 December 2023, the intangible assets had an average remaining useful life of 3 years.

32 Right-of-use assets

31 December 2023	**Buildings KShs. million**	**Branches KShs. million**	**ATM Space KShs. million**	**Others KShs. million**	**Total KShs. million**
Cost					
At start of year	228	1,774	91	167	2,260
Additions	86	139	5	53	283
Modifications	-	5	-	-	5
Translation difference	-	(44)	(1)	-	(45)
At end of year	**314**	**1,874**	**95**	**220**	**2,503**
Depreciation					
At start of year	165	1,001	60	109	1,335
Depreciation charge for the year	53	236	15	33	337
Terminations	-	-	-	-	-
Translation difference	-	(26)	-	-	(26)
At end of year	**218**	**1,211**	**75**	**142**	**1,646**
Right-of-use assets	**96**	**663**	**20**	**78**	**857**
31 December 2022					
Cost					
At start of year	228	1,616	76	167	2,087
Additions	-	322	22	-	344
Modifications	-	2	(2)	-	-
Terminations	-	(17)	(5)	-	(22)
Translation difference	-	(99)	-	-	(99)
Hyperinflation adjustment	-	(50)	-	-	(50)
At end of year	**228**	**1,774**	**91**	**167**	**2,260**
Depreciation					
At start of year	126	798	45	81	1,050
Depreciation charge for the year	39	245	19	28	331
Terminations	-	(11)	(4)	-	(15)
Translation difference	-	(33)	-	-	(33)
Hyperinflation adjustment*	-	2			2
At end of year	**165**	**1,001**	**60**	**109**	**1,335**
Right-of-use assets	**63**	**773**	**31**	**58**	**925**

The Bank leases property for use as branches, offices, ATMs and parking spaces. The leases of offices and ATM spaces are typically for periods of between 2 and 10 years, with options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

**South Sudan was considered Hyperinflationary in 2022 and IAS 29 was applicable as at 31 December 2022.*

Notes (continued)

33 Lease liabilities

	2023 KShs. million	2022 KShs. million
Non-current	695	721
Current	313	436
	1,008	**1,157**

Reconciliation of lease liabilities arising from financing activities:

31 December 2023	**Buildings KShs. million**	**Branches KShs. million**	**ATM Space KShs. million**	**Others KShs. million**	**Total KShs. million**
At start of year	95	949	47	66	1,157
Additions	86	144	3	53	286
Interest charged to profit or loss	14	95	3	9	121
Translation difference	-	(59)	(1)	-	(60)
Foreign exchange movement on lease liabilit	-	101	-		101
Cash flows:					
- Operating activities (interest paid)	(14)	(95)	(3)	(9)	(121)
- Payments under leases	(68)	(353)	(15)	(40)	(476)
At end of year	**113**	**782**	**34**	**79**	**1,008**

31 December 2022	**Buildings KShs. million**	**Branches KShs. million**	**ATM Space KShs. million**	**Others KShs. million**	**Total KShs. million**
At start of year	135	860	43	93	1,131
Additions	-	323	20	-	343
Interest charged to profit or loss	10	91	5	8	114
Translation difference	-	19	1.00	-	20
Cash flows:					
- Operating activities (interest paid)	(10)	(91)	(5)	(8)	(114)
- Payments under leases	(40)	(253)	(17)	(27)	(337)
At end of year	**95**	**949**	**47**	**66**	**1,157**

	2023 %	**2022 %**
Weighted average effective interest rates at the reporting date was:	18.00%	11.61

Maturity analysis of lease liabilities is as follows:	**2023 KShs' million**	**2022 KShs' million**
Within 1 year	482	138
From 1 year to 5 years	747	1,003
More than 5 years	19	185
	1,248	**1,326**

The maturity analysis disclosed refers to undiscounted amounts as required by IFRS 7.39.
The lease liabilities are unsecured.

Notes (continued)

34 a) i) Deferred income tax asset

	Note	2023 KShs. million	2022 KShs. million
At start of year		**7,221**	**5,654**
Credit to statement of profit or loss (note 16)		1,885	1,569
Credit /debit to statement of profit or loss - Foreign operations (note 16)		69	(2)
Debit/(credit) to other comprehensive income (note 34 (a) (ii))		89	-
Exchange differences on translation		(2)	-
At end of year		**9,262**	**7,221**

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

a) ii) Deferred income tax asset

Year ended 31 December 2023	01.01.2023 KShs. million	(Credited)/ charged to statement of profit or loss KShs. million	Credited to OCI KShs. million	Translation difference KShs. million	31.12.2023 KShs. million
Arising from:					
Property and equipment	508	550	-	-	**1,058**
Expected credit loss charges	5,095	1,385	-	-	**6,480**
Right-of-use assets	30	125	-	-	**155**
Unrealised gain on bonds – FVOCI	(24)	(139)	89	-	**(74)**
Unrealised gain on bonds –FVTPL	(46)	266	-	-	**220**
Other provisions	1,644	(302)	-	-	**1,342**
Exchange difference on translation	(8)	-	-	(2)	**(10)**
South Sudan deffered tax asset	22	69	-	-	**91**
Net deferred income tax asset	**7,221**	**1,954**	**89**	**(2)**	**9,262**

Year ended 31 December 2022	01.01.2022 KShs. million	(Credited)/ charged to statement of profit or loss KShs. million	Credited to OCI KShs. million	Translation difference KShs. million	31.12.2022 KShs. million
Arising from:					
Property and equipment	172	336	**-**	**-**	**508**
Expected credit loss charges	4,258	837	**-**	**-**	**5,095**
Right-of-use assets	46	(16)	**-**	**-**	**30**
Unrealised gain on bonds – FVOCI	(46)	22	**-**	**-**	**(24)**
Unrealised gain on bonds – FVTPL	(152)	106	**-**	**-**	**(46)**
Other provisions	1,360	284	**-**	**-**	**1,644**
Exchange difference on translation	(6)	(2)	**-**	**-**	**(8)**
South Sudan deferred tax asset	22	-	**-**	**-**	**22**
Net deferred income tax asset	**5,654**	**1,567**		**-**	**7,221**

Notes (continued)

34 b) Deferred income tax liability

Foreign Operations	2023 KShs. million	2022 KShs. million
At start of year	**14**	**18**
Debit to statement of profit or loss (Note 16)	69	(2)
Translation difference	(2)	(2)
At end of year	**81**	**14**

The total amount disclosed as deferred income tax liability is a non-current liability.

Year ended 31 December 2023	01.01.2023 KShs. million	(Credited)/ charged to statement of profit or loss KShs. million	Credited to OCI KShs. million	31.12.2023 KShs. million
Arising from:				
Property and equipment	1	2	-	**3**
Effect of tax rate change	3	-	-	**3**
Exchange difference on translation	(2)	-	(2)	**(4)**
Other provisions	18	51	-	**69**
Right-of-use assets	(6)	16	-	**10**
Net deferred income tax liability	**14**	**69**	**(2)**	**81**

Year ended 31 December 2022	01.01.2022 KShs. million	(Credited)/ charged to statement of profit or loss KShs. million	Credited to OCI KShs. million	31.12.2022 KShs. million
Arising from:				
Property and equipment	(1)	2	-	1
Effect of tax rate change	-	3	-	3
Other provisions	7	11	-	18
Right-of-use assets	12	(18)	(2)	(8)
Net deferred income tax liability	**18**	**(2)**	**(2)**	**14**

35 Current income tax

The current income tax payable and current income tax receivable have been separately recognised as Kenya and South Sudan have no legal enforceable right to set off current tax.

a) Current income tax payable

	2023 KShs. million	2022 KShs. million
As at 1 January	1,469	1,761
South Sudan tax credit (Note 35 (b)	-	(21)
Current income tax charge (Note 16)	7,101	4,929
Income tax paid	(6,093)	(4,927)
Tax balance re-allocation	18	17
Prior year over provision	(327)	(290)
As at 31 December	**2,168**	**1,469**
Made up of		
Tax payable	**2,168**	**1,490**
Tax recoverable	**-**	**(21)**
	2,168	**1,469**

The amount above relates to current income tax recoverable in Kenya and is current.

Notes (continued)

35 b) Current income tax payable/(recoverable)

Foreign Operations	2023 KShs. million	2022 KShs. million
As at 1 January	**-**	-
Current tax charge	**(266)**	(151)
Tax paid	**131**	184
Transfer to tax payable account prior year (note 35 (a))	**21**	(19)
Prior year-provision	**(5)**	7
Transfer to tax payable account	**119**	(21)
As at 31 December	**-**	-

The amount above relates to current income tax recoverable in South Sudan and is current.

36 Customer deposits

	2023 KShs. Million	2022 KShs. million
Current accounts	171,242	168,743
Call deposits	24,460	8,221
Savings accounts	74,149	65,256
Term deposits	51,479	24,347
LC acceptances	881	5,577
	322,211	**272,144**
Maturity analysis:		
Redeemable on demand	193,124	169,258
Maturing within 1 month	100,373	82,330
Maturing after 1 month but within 6 months	9,336	16,787
Maturing after 6 months but within 12 months	6,740	3,240
Maturing after 12 months	12,638	529
	322,211	**272,144**

Deposit products include current accounts, savings accounts, call deposits and fixed deposits. The weighted average effective interest rate on customer deposits as at 31 December 2023 was 4.28% (2022: 1.79%).

37 Amounts due to other banks

	2023 KShs. million	2022 KShs. million
Deposits from banks	12,970	10,237
Balances due to group companies (45.2)	13,034	22,516
	26,004	**32,753**
Maturity analysis:		
Redeemable on demand	2,668	22,769
Maturing within 1 month	11,404	318
Maturing after 1 month but within 6 months	869	1,526
Maturing after 6 months but within 12 months	32	21
Maturing after 12 months	11,031	8,119
	26,004	**32,753**

Included in balances due to group companies are borrowings of KShs 10,185,211,000 (2022: KShs 16,136,048,000). Interest on these borrowings is 6.77% (2022: 4.61%).

Notes (continued)

38 a) Other liabilities and accruals

	2023 KShs. million	2022 KShs. million
Accruals	4,781	3,285
Deferred bonus scheme (Note 38 (b))	250	139
Unpresented bank drafts	70	67
Margin on guarantees and letters of credit	1,775	2,820
Items in transit	233	326
Due to group companies (Note 45.7)	1,002	898
Sundry creditors	2,308	2,961
Expected credit losses on off balance sheet items (note 44.3)	93	115
	10,512	**10,611**

Sundry creditors relate to credits in transit, PAYE and VAT payables.

b) Deferred bonus scheme (DBS)

It is essential for the Bank to retain key skills over the longer term. This is done particularly through share-based incentive plans. The purpose of these plans is to align the interests of the Bank and employees, as well as to attract and retain skilled, competent people.

The Bank has implemented a scheme to defer a portion of incentive bonuses over a minimum threshold for key management and executives. This improves the alignment of shareholder and management interests by creating a closer linkage between risk and reward, and also facilitates retention of key employees.

All employees granted an annual performance award over a threshold have part of their award deferred. The award is indexed to Standard Bank Group's (SBG) share price and accrues notional dividends during the vesting period, which are payable on vesting. The awards vest in three equal amounts at 18 months, 30 months and 42 months from the date of award. The final pay-out is determined with reference to SBG's share price on vesting date.

The provision in respect of liabilities under the scheme amounts to KShs 250,224,853 at 31 December 2023 (2022: KShs 138,449,362) and the amount charged for the year was KShs 277,101,514 (2022: KShs 122,495,123).

	Units	
Reconciliation	**2023**	**2022**
Units outstanding at beginning of the year	53,408	27,495
Granted	40,597	32,333
Exercised	(24,639)	(6,420)
Transfers	(1,529)	-
Units outstanding at end of the year	**67,837**	**53,408**
Weighted average fair value at grant date (ZAR)*	161.99	146.12
Expected life (years)	2.51	2.51

** South African Rand*

Notes (continued)

39 Subordinated borrowings

At 31 December 2023	Notional value KShs. million	Carrying value KShs. million	Interest Rate	Date of Issue	Maturity date
Subordinated debt - USD 30M	4,705	4,742	9.18%	1-Mar-23	1-Mar-33
Subordinated debt - USD 20M	3,137	3,259	10.09%	30-Jan-19	12-Dec-28
Subordinated debt - USD 30M	4,705	4,712	9.86%	28-Sep-22	30-Sep-32
Total	**12,547**	**12,713**			

At 31 December 2022	Notional value KShs. million	Carrying value KShs. million	Interest Rate	Date of Issue	Maturity date
Subordinated debt - USD 30M	3,762	3,794	8.85%	28-Feb-18	28-Feb-28
Subordinated debt - USD 20M	2,508	2,583	7.74%	30-Jan-19	12-Dec-28
Subordinated debt - USD 30M	3,762	3,764	9.38%	28-Sep-22	30-Sep-32
Total	**10,032**	**10,141**			

There were no charges placed on any of the Bank’s assets in relation to these borrowings. The borrowings are unsecured subordinated debt instruments.

The difference between the carrying and notional value represents, accrued interest and the unamortised issue costs.

Interest expense incurred in the above borrowings was KShs 1,017,194,674 (2022: KShs 439,573,819). The weighted average effective interest rate on borrowings as at 31 December 2023 was 9.45% (2022: 4.57%) on the back of higher SOFR rate year on year.

The Bank has borrowed three subordinated debt facilities as follows:

a) USD 30 million obtained from the Standard Bank of South Africa in 2018. There are no covenants relating to this facility.

b) USD 20 million obtained from the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) in 2019. The Bank complied with all covenants relating to this facility throughout the reporting year.

c) USD 30 million obtained from Standard Bank of South Africa in 2022. There are no covenants relating to this financing.

Reconciliation of liabilities arising from financing activities:	**2023 KShs' million**	**2022 KShs' million**
At start of year	10,141	5,700
Interest charged to profit or loss	1,084	443
Additions	-	3,764
Foreign exchange loss	2,452	625
Cash flows:		
- Operating activities (interest paid)	(964)	(391)
At end of year	**12,713**	**10,141**

40 Share capital

Authorised share capital	**2023 Number of Shares (million)**	**2023 Share Capital KShs. million**	**2022 Number of Shares (million)**	**2022 Share Capital KShs. million**
Authorised share capital at Kshs 20 each	187	3,745	187	3,745
At 31 December	**187**	**3,745**	**187**	**3,745**

Issued share capital	**2023 Number of Shares (million)**	**2023 Share Capital KShs. million**	**2022 Number of Shares (millions)**	**2022 Share Capital KShs ‘000**
Balance as at 01 January	171	3,412	171	3,412
At 31 December	**171**	**3,412**	**171**	**3,412**
Unissued shares	**16**	**333**	**16**	**333**

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

Notes (continued)

41 Share premium

	2023 KShs. million	2022 KShs. million
At 01 January	3,445	3,445
At 31 December	**3,445**	**3,445**

42 Nature and purpose of reserves

42.1 Fair value reserve on financial assets at fair value through other comprehensive income

The fair value reserve comprises the cumulative net change in the fair value of FVOCI financial assets until the investment is derecognised or impaired. The reserve is non-distributable.

42.2 Revaluation reserve on land and buildings

The revaluation reserve represents solely the surplus on the revaluation of buildings and freehold land net of deferred income tax and is non-distributable. This reserve arose from the merger between CfC Bank Limited and Stanbic Bank Limited in 2008.

42.3 Foreign currency translation reserve

Currency translation reserve comprises all the foreign exchange differences arising from the translation of the financial results of foreign operations.

42.4 Regulatory reserve

The regulatory reserve represents an appropriation from retained earnings to comply with the Prudential Guidelines of the Central Bank of Kenya on loan loss provisions. The balance represents the excess of impairment provisions determined in accordance with the Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. The reserve is non-distributable.

Notes (continued)

43 Share-based payment reserve

The Bank's share incentive scheme enables key management personnel and senior employees of the Bank to benefit from the performance of Standard Bank Group (SBG) shares.

The Bank has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth Scheme represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights. The share appreciation rights granted during the year were valued using Black Scholes pricing model. Each grant was valued separately.

At 31 December 2023, the total amount included in staff costs for Group Share Incentive Scheme was KShs. Nil (2022: Nil) and for Equity Growth Scheme was KShs. Nil (2022: Nil).

The two schemes have five different sub-types of vesting categories as illustrated by the table below:

	Year	% vesting	Expiry
Type A	3, 4, 5	50, 75, 100	10 Years
Type B	5, 6, 7	50, 75, 100	10 Years
Type C	2, 3, 4	50, 75, 100	10 Years
Type D	2, 3, 4	33, 67, 100	10 Years
Type E	3, 4, 5	33, 67, 100	10 Years

A reconciliation of the movement of share options and appreciation rights is detailed below.

	Option price range (ZAR)	Number of options	
Group Share Incentive Scheme	**2023**	**2023**	**2022**
Options outstanding at beginning of the year		**20,187**	**20,187**
Granted		-	**-**
Transfers		-	-
Exercised	98.8 - 111.94	(187)	-
Lapsed		(20,000)	-
Options outstanding at end of the year		**-**	**20,187**

The weighted average SBG share price for the year to 31 December 2022 was ZAR 146.55. No outstanding options for the year 2023.

Notes (continued)

43 Share-based payment reserve (continued)

There were no options granted to employees that had not been exercised as at 31 December 2023.

The following options granted to employees had not been exercised at 31 December 2022:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
20,000	107.55	107.55	Year to 31 December 2023
187	98.80	98.80	Year to 31 December 2023
20,187			

	Number of rights	
Equity Growth Scheme	**2023**	**2022**
Rights outstanding at beginning of the year	39,502	43,037
Transfers	-	2,500
Exercised	(1,251)	(6,035)
Rights outstanding at end of the year[1]	**38,251**	**39,502**

[1] At 31 December 2023 the Bank would need to issue 10,053 (2022: 8,711) SBG shares to settle the outstanding appreciated rights value.

All rights granted to employees have been exercised as at 31 December 2023.

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
31,339	156.96	156.96	Year to 31 December 2025
6,912	122.24	122.24	Year to 31 December 2026
38,251			

The following rights granted to employees had not been exercised at 31 December 2022:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
1,251	98.80	96.68	Year to 31 December 2023
31,339	156.96	156.96	Year to 31 December 2025
6,912	122.24	122.24	Year to 31 December 2026
39,502			

Notes (continued)

44 Contingent liabilities

Commitments were with respect to:	2023 KShs. million	2022 KShs. million
Letters of credit and acceptances	30,976	3,033
Guarantees	65,303	73,632
Unutilised facilities	16,794	17,581
	113,073	**94,246**

Maturity analysis of contingent liabilities

31 December 2023	**Redeemable on demand**	**Maturing within 1 month**	**Maturing after 1 month but within 6 months**	**Maturing after 6 months but within 12 months**	**Maturing after 12 months but within 5 years**	**Maturing after 5 years**	**Total carrying value**
Letters of credit and acceptances	-	247	30,729	-	-	-	**30,976**
Guarantees	204	3,819	13,121	27,182	20,591	386	**65,303**
Unutilised facilities	-	994	2,608	13,192	-	-	**16,794**
31 December 2022							
Letters of credit and acceptances	804	302	1,477	450	-	-	**3,033**
Guarantees	4	9,137	19,399	27,157	17,626	309	**73,632**
Unutilised facilities	-	750	12,760	4,070	1	-	**17,581**

44.1 Nature of contingent liabilities

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

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

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

The off balance sheet facilities are classified based on their credit quality as determined using the Bank's internal credit rating and scoring models.

44.2 Segmental analysis of off-balance sheet liabilities

	2023 KShs. million	%	2022 KShs. million	%
Agriculture	3,090	3%	5,083	5%
Manufacturing	3,500	3%	3,450	4%
Construction	23,976	21%	19,866	21%
Energy	130	0%	727	1%
Transport and communication	2,134	2%	2,544	3%
Distribution/wholesale	34,119	30%	20,942	22%
Financial services	45,303	40%	38,239	41%
Tourism	-	0%	76	0%
Other activities and social service	821	1%	3,319	3%
	113,073	**100%**	**94,246**	**100%**

Notes (continued)

44 Contingent liabilities (continued)

44.3 Expected credit losses on off-balance sheet items

	Opening ECL 1 January 2023	Total transfers between stages	Statement of profit or loss movements			Net ECL raised/ (released)	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2023
			ECL on new exposure raised	Derecognition	Subsequent changes in ECL				
Off balance sheet	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Stage 1	**95**	**(1)**	**36**	**(37)**	**(5)**	**(6)**	**-**	**-**	**88**
Letters of credit	17	-	20	(16)	-	**4**	-	-	21
Guarantees	78	(1)	16	(21)	(5)	**(10)**	-	-	67
Stage 2	**21**	**1**	**-**	**(16)**	**(2)**	**(18)**	**-**	**1**	**5**
Letters of credit	-	-	-	-	-	**-**	-	-	-
Guarantees	21	1	-	(16)	(2)	**(18)**	-	1	5
Stage 3	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**
Letters of credit	-	-	-	-	-	**-**		-	-
Guarantees	(1)	-	-	-	-	**-**	-	1	-
Total ECL	**115**	**-**	**36**	**(53)**	**(7)**	**(24)**	**-**	**2**	**93**

Notes (continued)

44 Contingent liabilities (continued)

44.3 Expected credit losses on off balance sheet items (continued)

			Statement of profit or loss movements						
	Opening ECL 1 January 2022	Total transfers between stages	ECL on new exposure raised	Derecognition	Subsequent changes in ECL	Net ECL raised/ (released)	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2022
Off balance sheet	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Stage 1	**95**	**20**	**30**	**(18)**	**(29)**	**(17)**	**-**	**(3)**	**95**
Letters of credit	17	-	4	(4)	5	5	-	(5)	17
Guarantees	78	20	26	(14)	(34)	(22)	-	2	78
Stage 2	**34**	**(15)**	**16**	**(1)**	**(5)**	**10**	**-**	**(8)**	**21**
Letters of credit	4	-	-	-	-	-	-	(4)	-
Guarantees	30	(15)	16	(1)	(5)	10	-	(4)	21
Stage 2	**28**	**(6)**	**-**	(34)	**-**	**(34)**	**-**	**11**	**(1)**
Letters of credit					-	-			
Guarantees	28	(6)	-	**(34)**	-	(34)	-	11	(1)
Total ECL	**157**	**(1)**	**46**	**(53)**	**(34)**	**(41)**	**-**	**-**	**115**

44.4 Legal proceedings

In the conduct of its ordinary course of business, the Bank is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The directors are satisfied, based on present information and the assessed probability of claims arising, that the Bank has adequate insurance programmes and provisions in place to meet such claims. The amounts provided for in other liabilities are KShs 1,119,103,589 (2022: KShs 521,000,000).

Notes (continued)

45 Related party transactions and balances

The Bank is a wholly owned subsidiary of Stanbic Holdings Plc, which is in turn a subsidiary of Stanbic Africa Holdings Limited (SAHL), incorporated in South Africa. The ultimate parent of the Bank is Standard Bank Group Limited, which is incorporated in the United Kingdom.

There are other companies which are related to Stanbic Bank Kenya Limited through common shareholdings or common directorships.

In the normal course of business, nostro and vostro accounts are operated and placements of both foreign and local currencies are made with the parent company and other group companies at interest rates in line with the market. Outstanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party balances.

For the year ended 31 December 2023, the Bank has made provision for doubtful debts relating to long outstanding amounts owed by related parties KShs 14 million (2022: KShs 289 million) as indicated on Note 45.6.

The relevant balances are as shown below:

45.1 Loans and advances to group banks	2023 KShs. million	2022 KShs. million
Stanbic Bank Uganda Limited	886	274
Stanbic Bank Tanzania Limited	131	65
Standard Bank of South Africa Limited	9,727	3,718
Standard Bank Isle of Man	79,798	11,046
	90,542	**15,103**
Interest income earned on the above is:	**2,496**	**400**

45.2 Deposits due to group banks	2023 KShs. Million	2022 KShs. Million
Standard Bank of South Africa Limited	2,128	519
Standard Bank Namibia Limited	2	-
Stanbic Bank Uganda Limited	636	1,248
Stanbic Bank Zambia Limited	2	3
Stanbic Bank Botswana Limited	5	2
Standard Bank (Mauritius) Limited	1	4,567
Standard Bank Isle of Man Limited	10,185	16,134
Stanbic Bank Tanzania Limited	74	42
Stanbic Zimbabwe Limited	1	1
	13,034	**22,516**
Interest expense incurred on the above is:	**903**	**559**

The weighted average effective interest rate on loans and advances to group companies as at 31 December 2023 is 5.49% (2022: 4.85%) and on amounts due to group companies was 2.09% (2022: 5.74%).

Notes (continued)

45 Related party transactions (continued)

45.3 Deposits due to group companies non-bank

	2023 KShs. million	2022 KShs. million
Stanbic Holdings Plc	215	58
SBG Securities Limited	641	414
The Heritage Insurance Company Limited	164	141
Liberty Life Assurance Kenya Limited	480	226
Stanbic Bancassurance Intermediary Limited	101	-
Stanbic Africa Holdings Limited	9	9
Stanbic Nominees Kenya Limited	37	9
Stanbic Foundation	19	48
	1,666	**905**

45.4 Due to subsidiary

Amounts due to subsidiary relates to deposit by Stanbic Nominees Limited amounting to Kshs. 2,000.

45.5 Key management compensation

Key management personnel include the members of the Stanbic Bank Kenya Limited board of directors and prescribed officers effective for 2023 and 2022. Non-executive directors are included in the definition of key management personnel as required by IAS 24 Related Party Disclosures. The definition of key management includes the close family members of key management personnel and any entity over which key management exercise control or joint control. Close members of family are those family members who may be expected to influence, or be influenced by that person in their dealings with the bank. They include the person's domestic partner and children, the children of the person's domestic partner, and dependants of the person or the person's domestic partner.

45.5.1 Loans and advances to key management

The aggregate amount of loans to directors, affiliates and their families as at 31 December 2023 is Kshs nil (2022: KShs 24 million).

Loans include mortgage loans, instalment sale and finance leases and credit cards. No specific credit impairments have been recognised in respect of loans granted to key management (2022: Nil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

Notes (continued)

45 Related party transactions (continued)

45.5.2 Key management remuneration

	2023 KShs. million	2022 KShs. million
Fees for services as a director	53	61
Salaries and other short term employment benefits	80	78
Post-employment pension	5	3
Share-based payments	-	21
	138	**163**

45.6 Other receivable from related companies

	2023	2022
SBG Securities Limited	12	7
Standard Bank Jersey Limited	7	1
Stanbic Holdings Plc	30	18
Stanbic Bank Uganda Limited	66	1
Stanbic Uganda Holdings Limited	12	11
Stanbic Bank Tanzania Limited	-	297
Standard Bank of South Africa Limited	388	131
Stanbic Bank Malawi Limited	1	2
Standard Bank de Angola S.A.	14	14
Stanbic Bancassurance Intermediary Limited	20	33
Standard Advisory London Ltd	6	-
SBSA Dubai Branch Limited	-	1
Stanbic Foundation	2	11
	558	**527**
Provisions on regional costs balances	(14)	(289)
	544	**238**
Movement analysis		
At 1 January	527	573
Additions	1,818	1,200
Receipts	(1,490)	(1,246)
Write off	(297)	-
Closing Balance	**558**	**527**
Provisions on regional costs balances	(14)	(289)
At 31 December	**544**	**238**

Notes (continued)

45 Related party transactions (continued)

45.7 Other payables due to related companies

	2023 KShs. million	2022 KShs. million
Standard Bank of South Africa Limited	981	889
Stanbic Bank Uganda Limited	20	6
Standard Bank Malawi Limited	1	3
	1,002	**898**

There is no interest accruing for these outstanding liabilities.

45.8 Related party expenses

The Bank incurred the following related party expenses payable to the Standard Bank of South Africa:

	2023 KShs. million	2022 KShs. million
Franchise fees	1,221	944
Information technology	763	595
Other operating costs	352	387
	2,336	**1,926**

46 Notes to the statement of cash flow

46.1 Cash flows from operating activities

	Note	2023 KShs. million	2022 KShs. million
Reconciliation of profit before income tax to cash flows from operating activities:			
Profit before income tax		16,740	12,163
Adjusted for:			
- Interest received		(36,277)	(23,392)
- Interest paid		12,896	6,814
- Amortisation of intangible assets	31	196	280
- Depreciation - property and equipment	30(a)	400	415
- Depreciation - right of use asset - land	30(b)	3	3
- Depreciation - right of use asset	32	337	331
- Change in fair value of derivatives		892	(434)
- Interest charged on borrowings	39	1,084	440
- Gain on disposal of property and equipment		(15)	(7)
Cash flow from operating activities		**(3,744)**	**(3,387)**

46 Notes to the cash flow statement (continued)

46.2 Analysis of cash and cash equivalents

	2023 KShs. million	2022 KShs. million
Unrestricted cash and balances with Central Bank of Kenya	12,244	10,660
Treasury bills	12,198	37,942
Loans and advances to banks	91,600	27,442
Amounts due to banks	(14,045)	(6,863)
Cash and cash equivalents at year end	**101,997**	**69,181**

For the purpose of presentation of cash flows in the financial statements, the cash and cash equivalents include balances with Central Bank of Kenya net of cash reserve ratio, net of balances from banking institutions and treasury bills with a maturity period of three months or less from the contract date. Cash equivalent are held for the purpose of meeting short-term cash commitments.

47 Capital commitments

Capital commitments for the acquisition of property and equipment are summarised below:

	2023 KShs. million	2022 KShs. million
Authorised and contracted for	827	143
Authorised but not contracted for	1,163	1,900

48 Short term leases and low value leases

The Bank has entered into a number of low value and short term leases that it has elected not to apply the requirements of IFRS 16. The Bank recognises the lease payments associated with these leases directly to the statement of profit and loss.

At 31 December, the future minimum undiscounted lease payments under the short term and leases of low value were as follows:

	2023 KShs. million	2022 KShs. million
Less than one year	77	27
Between one and five years	78	41
	155	**68**

49 Fiduciary activities

The assets held on behalf of individuals, trusts, retirement benefit plans and other institutions:

	2023 KShs. million	2022 KShs. million
Assets held on behalf of individual’s trusts and other institutions	**514,305**	**457,825**

The net fees and commission earned by the Bank on trust and fiduciary activities where the Bank holds or invests assets on behalf of its customers is KShs.353,397,281 (2022: KShs 356,199,136).

50 Subsequent event

There have been no other events or transactions subsequent to 31 December 2023 to the date of these financial statements that would have a material effect on the financial statements at that date or for the year then ended and would require adjustment of, or disclosure in the financial statements or notes thereto in accordance with IAS 10 *Events After the Balance Sheet Date* .