



**COMMERCIAL INTERNATIONAL BANK KENYA LIMITED  
FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2023**





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Directors	Tom M Gitogo Hussein Abaza Sheila Kyarisiima Maged Shawky Rajeev Kakar Ali Shaker  Essam El- Wakil  Hossam Moustafa Saleh Rageh  Anjay Vithalbhai Patel Bharatkumar Velji Punja Shah Vishal Rajinderkumar Patel Kalpesh rasik Patel Nadeem Iqbal Ahmed	- Chairman, Independent Non-Executive Director - Non-Executive Director - Independent Non-Executive Director - Independent Non-Executive Director (effective 18 July 2023) - Non-Executive Director (effective 21 November 2023) - Independent Non-Executive Director (effective 15 November 2023) - Independent Non-Executive Director (effective 20 November 2023) - Managing Director/Chief Executive Officer (Resigned 29 February 2024) - Non-Executive Director (Resigned 31 January 2023) - Non-Executive Director (Resigned 31 January 2023)
Secretary	Lynette W. Kamande Certified Public Secretary (Kenya) P O Box 2051 - 00606, Sarit Centre Nairobi, Kenya	
Registered Office	L R No. 1870/1/553, KAM House, Westlands P O Box 2051 - 00606, Sarit Centre Nairobi, Kenya	
Auditor	PricewaterhouseCoopers LLP Certified Public Accountants (Kenya) PwC tower Waiyaki Way, Chiromo road P O Box 43963 - 00100 Nairobi, Kenya	

## **Statement on corporate governance**

### **Corporate Governance**

CIB Kenya Ltd. has been keen on entrenching a sound corporate governance culture across the bank and within its business to ensure transparency and accountability with all stakeholders. CIB Kenya Ltd. has a robust corporate governance framework that ensures all applicable laws and regulations are adhered to, in line with CBK-requirements and international best practices. Corporate Governance-Best Practices entail defining roles and responsibilities; appointing a qualified board of directors with Executive, Non-Executive, and independent members to ensure objective and fair decision-making, while evaluating their performance. The Bank Governance Framework adopts the international best practices of corporate governance, consisting of a one-tier Board, competent board committees, an experienced management team, and a set of internal policies and processes.

A strong governance framework is essential for a secure and controlled business environment, with a focus on the clear segregation of duties and responsibilities of the Board and senior management. The Bank's governance framework includes Board and Senior Management Oversight, adequate structure, clear lines of responsibility, accountability, effective communication channels between the Management and the Board of Directors, governance controls, and adequate Management Information System allows for open, challenging discussion and well-informed decisions making.

A vibrant and dynamic, independent Risk, Audit and Compliance management frameworks and assurance of the disclosure and transparency of material information regarding the bank, its ownership, board constitution, operations, and financial performance.

The Governance Framework includes Code of Corporate Governance, The Code of Conduct, The Conflict-of-Interest Policy, and the Whistle-Blowing Policy inter alia, that bind all its directors, employees and all its stakeholders to ensure the Bank's business is undertaken with utmost integrity, transparency and in an ethical and fair manner, in keeping with the local and external regulations and global best practices. Adherence to well-defined corporate governance is ensured through training programs for new and existing staff members, encouraging proactive disclosure, resulting in effective internal control, and promoting trust with stakeholders.

The Code of Corporate Governance outlines the role and composition of the Board of Directors, relationships with shareholders and executive management, the role of the internal control departments, reporting transparency, and information disclosure, with an aim of protecting shareholder value and fostering a culture of integrity, accountability, and public trust.

CIB Kenya is committed to maintaining the highest standards of ethical and professional conduct. The bank's Code of Conduct: Providing staff, senior management, and the board of directors with a comprehensive frame of reference regarding their rights and duties. The Code sets out the standards of behavior, business practice, professional and personal conduct expected from all staff and articulates acceptable and unacceptable behaviors.

The Conflict-of-Interest-Policy addresses potential and actual conflicts of interest and governs circumstances in which board members, senior management, or staff may personally benefit from actions that are contrary to the bank's best interests. The policy outlines high-level organizational and control procedures to identify and manage conflicts of interest in the Bank as part of its corporate governance and business activities.

The Whistleblowing Policy encourages employees and other stakeholders to speak up without fear and report in good faith any suspected or actual improper, unethical behavior, breaches of confidentiality, laws, regulations, or policies. It also defines adequate communication channels for Whistleblowers and provides a framework for a transparent, confidential process for dealing with reported incidents.

These collectively shape the governance of a wide range of issues, such as objective setting, corporate values, ethical standards, aligned business objectives, effective risk management, appropriate remuneration, evaluation, and succession planning, resulting in promoting public trust and long-term visibility.

### **Bank Ownership**

CIB Kenya Limited (formerly Mayfair-CIB) is an established commercial bank in the Republic of Kenya and was licensed by the Central Bank of Kenya in June 2017. In April 2020, CIB Egypt acquired 51 % stake in Mayfair Bank Limited. The Bank was rebranded to Mayfair-CIB Bank Limited after the acquisition. In January 2023, CIB Egypt anchored its regional presence with the acquisition of the remaining 49 % stake in Mayfair CIB Bank Limited, making it the first fully owned subsidiary of CIB Egypt.

### The Board of Directors

The Board of Directors of CIB Kenya Ltd strongly believe that a sound corporate governance framework sets the foundation for sustained growth and maximization of shareholder value. Consequently, a Board Charter guides the Board of Directors, in terms of Corporate Governance, and in line with the Central Bank of Kenya Prudential Guidelines, 2013. The Charter is also subject to the provisions of the Laws of Kenya, the Bank's Articles of Association, and any other applicable laws or regulatory provisions.

The competent and diverse Board of Directors is responsible for all bank activities. The Board effectively oversees the bank, guides its management team and committees, and receives reports from internal control departments and the unbiased assurance performed by its internal and external auditors. The Board liaises with and supports the Bank's internal control functions and constructively uses outcomes and reports received by these functions to take the necessary corrective actions. The Board ensures the clear segregation of the roles and responsibilities of these functions, so that each one can communicate directly and independently with the Board.

CIB Kenya Limited is governed by a Board of Directors, led by an Independent Non-Executive Chairman, and it consists of 8 members elected by the shareholders. The Board comprises 1 Chief Executive Officer, 2 Non-Executive Directors and 5 Independent Non-Executive Directors.

The responsibility of the Board is to ensure strategic direction, management supervision and adequate control of the Bank, with the goal of increasing the long-term value of the Bank.

The Board and Senior Management have distinct duties and obligations, as does the Chairperson and CEO. The CIB Kenya Board maintains an adequate balance and independence. The directors are highly skilled and experienced to exercise good objective judgment. The board composition and independence level are consistent with Central Bank of Kenya guidelines.

Directors	No. of meetings attended 2023				
	BRMC	BAC	BNHRC	BCC	BOARD
Tom M. Gitogo (Chairman)	4/4		4/4		5/5
Hossam Moustafa Saleh Rageh (Chief Executive Officer & MD)	4/4	4/4	4/4	4/4	5/5
Sheila Kyarisima		4/4	4/4	4/4	5/5
Hussen Abaza	4/4	2/4		3/4	5/5
Mohamed Sultan	1/1			2/2	2/2
Maged Shawky	2/2	2/2		2/2	3/3
Rajeev Kakar					1/1
Ali Shaker					1/1
Essam El- Wakil					1/1

### The Board Committees

CIB Kenya Board committees assist the board in fulfilling board's responsibilities. Each Committee Chairperson is responsible for briefing the Board of Directors about the key issues and highlights raised in the respective committees. The terms of reference for each committee are an integral part of each committee's duties.

#### The Board Audit committee (BAC)

This is a Mandatory Committee of the Board. The BAC meets at least once every quarter, and its main responsibilities is providing oversight over the integrity of the Bank's financial reporting process, the effectiveness of the Bank's internal control systems, and its compliance with all statutory requirements among other duties.

**The Board Risk Management committee (BRMC)**

This is also a mandatory committee of the Board. The main responsibilities include overseeing and ensuring the effectiveness of the risk management framework, an effective process for identifying, assessing, and mitigating risks, and the adequacy of the risk management methodologies. Oversee senior management's activities in managing strategic, credit, market, liquidity, operational, cyber security, legal, reputational, and other risks facing or might be facing the bank; Concur on risk policies and make necessary recommendations to the board regarding all risk-related responsibilities, including the review of major risk management requirements.

**The Board Credit Committee (BCC)**

As a mandatory committee of the Board, BCC is responsible for overseeing and monitoring the lending policy of the bank, ensuring adequate provisions for bad and doubtful debts, minimizing credit losses, and maximizing recoveries; ensuring that credit function is professionally and effectively managed for business growth and in compliance with internal policy and external and statutory regulations; formulating the bank's broad credit risk parameters and limits for consideration and approval by the board; Assisting the Board in monitoring the quality of the credit portfolio, overseeing compliance with the regulatory requirements, reviewing credit risk appetite, ensuring it supports the bank's long-term strategy, and considering all issues that may materially impact the bank's credit risk management.

**The Board Nomination & Human Resources Committee (BNHRC)**

The major responsibilities of the board's Human Resources and Nomination Committee include reviewing the composition of the board to ensure a proper structure, a mix of skills and experience, diversity, and making necessary recommendations; and overseeing the compensation system's design and operation on behalf of the Board of Directors.

**Senior Management**

The bank's senior management team effectively executes its governance obligations by executing the board's strategy, implementing policies and procedures, and ensuring clear goals and objectives for each line of business function aligned with strategic direction. The senior management is responsible for overseeing the day-to-day activities and ensuring they are in line with the approved risk management framework and board strategy. The management is supported in carrying out its responsibilities through management committees, which provide the vital link between management and directors, serve as important channels of cascading board decisions to management-level staff, and communicate to directors the activities that management staff are engaged in as well as the risks involved. These committees include:

- Executive Committee (ExCo),
- Asset Liability Management Committee (ALCO)
- Management Credit Committee (MCC),
- Executive Credit Committee (ECC),
- Non-Financial Risk and Compliance Committee (NFRCC)
- Information Technology Steering Committee (ITSC)

The management committees are governed by board-approved terms of reference and report to their respective board committees on a quarterly basis.

**Enterprise Risk Management**

The primary goal of risk management is to ensure that the outcomes of risk-taking activities are consistent with the bank's strategies and risk appetite and that there is an appropriate balance between risk and reward in order to maximize shareholder returns. The bank has a robust and dynamic risk management framework, which provides the foundation for achieving these goals. This framework is subject to constant evaluation to ensure that it meets the changing requirements of the market in which the bank operates, including regulatory, industry standards, and global best practices. Arising from our belief that integrating a strong risk management program into the daily management of business and strategic planning gives the bank a strategic competitive advantage, we have ensured that our integrated risk management framework is applied enterprise-wide across all our branches, departments, and activities. The bank's enterprise-wide risk management policies encompass strategic, credit, market, liquidity, operational, compliance, legal, regulatory, climate-related, model, ICT, retail, fraud, third-party, and reputational risks.

### **Risk Management Principles**

The bank's risk management policies are intended to allow the bank to assess and enhance its approach to managing risk by articulating high-level risk management principles that are comprehensive, proven in practice to be effective, and likely to stand the test of time. These principles include:

- **Governance (Board and Senior Management Accountabilities and Responsibilities):** Overall risk management policies and risk appetite thresholds and tolerances are set on a comprehensive, bank-wide basis by senior management and reviewed with, and approved by, the board of directors.
- **Business Line/Unit Accountability:** Business lines and units are the bank's first line of defence and are accountable for managing the risks associated with their respective activities and operations within established tolerances, as well as for the results, both positive and negative, of taking those risks.
- **Framework for Risk Management:** The bank considers policies and procedures to be necessary for effectively managing and controlling risks. The risk and compliance departments, the bank's second line of defence, exist to implement and monitor the risk management framework established by the Board of Directors and monitor its execution.
- **Integration of Risk Management:** Ensures that interactions among risks are identified, understood, and managed as appropriate; risks are not evaluated in isolation.
- **Risk Evaluation and Measurement:** Risks are qualitatively evaluated on a recurring basis, and, wherever practical, the evaluation includes quantitative analysis. Risk assessments consider the effects of both likely and unlikely events based on risk profiling.
- **Independent Audits:** This third line of defence helps to validate and provide assurance on the effectiveness of the bank's risk management activities, with recommendations for improvements or remedial action being made where necessary.

### **Risk & Compliance Departments**

The Risk Department and Compliance Departments are two distinct independent functions reporting to the Board Risk Management and the Board Audit Committees, respectively. They are a critical part of the bank's risk management framework and are responsible for assessing the risks that the bank is exposed to while continuously giving a report to the board and management on the bank's position in terms of risk exposure, as well as recommending remedial action to ensure adherence to internal and regulatory guidelines.

Effectively managing risks arising from the bank's daily business activities maximizes its opportunities in the market and enhances the bank's competitive position in the industry. Integrating a strong risk and compliance management program into the daily management of business and strategic planning gives the bank a strategic competitive advantage. It helps the bank to protect its reputation, lower the cost of capital, reduce costs, and minimize the risk of investigation, prosecution, and penalties.

### **Internal Audit Department (IAD)**

The Internal Audit Department is a critical and integral part of the CIB Kenya internal control framework. It is an independent function within the bank that directly reports to the Board Audit Committee of the Board of Directors. Through its reviews and audits, IAD gives independent assurance that the risk management framework and the inherent controls therein are effective and working as intended.

### **External Audit**

The bank has appointed an external auditor to ensure that it adheres to all the regulatory requirements. The external auditor has direct access to the Board Audit Committee and can provide them directly with the interim and annual financial positions and statements. The Board Audit Committee meets with the external auditors at least twice annually without the presence of senior management. The Board of Directors and Senior Management support the role of the external audit and monitor the integrity of the bank's financial statements to ensure that they reflect the bank's performance and reveal its bona fide financial position. The relationship between the bank and the external auditors is guided by CBK prudential guidelines.

**Compensation Scheme**

The bank's remuneration and reward system is designed to attract, motivate, and retain talent at all levels of the bank in a highly competitive market. Consideration is given to total reward and the appropriate balance between fixed pay and benefits for all employees, depending on their roles. The compensation structure caters for external competitiveness through industry benchmarking and internal equitability, with an emphasis on recognizing and rewarding individual performance.



**Tom Gitogo**

**Chairman**



MAGID SHAWKY  
DIRECTOR

## **Report of directors**

The directors present their report together with the audited financial statements of CIB Bank Limited for the year ended 31 December 2023.

### **Principal Activities**

The principal activity of the Bank is the provision of banking, financial and related services as licensed under the Banking Act (Cap 488).

### **Financial Results**

	2023 Ksh'Thousands	2022 Ksh'Thousands
(Loss)/Profit before income tax	(279,884)	(515,150)
Income tax credit	280,503	937,994
 Net profit for the year	 619	 422,844
	=====	=====

### **Dividends**

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

### **Business Review**

#### **Operating Environment**

The Bank has been operational since August 2017.

Below are the key highlights on the Bank's performance:

	2023 Ksh'Millions	2022 Ksh'Millions
Total assets	17,543	12,907
Customer deposits	11,495	7,949
Loans and advances to customers, net	5,902	5,012
Net interest income	788	773
Non-interest income	124	83
Profit after income tax	0.6	422

### **Overall Economy in 2023**

- Kenya's economic performance strengthened in 2023 despite continued challenges, with real GDP growth accelerating from 4.8% in 2022 to an estimated 5% in 2023. The improved growth performance is attributed to a strong rebound in agriculture sector in 2023 which had faced a persistent and severe drought as well as a moderate growth in the services sector.
- Kenya continues to experience low foreign direct investment inflows amidst a weakening shilling. The rapid interest rate hikes in advance economies led to a substantial increase in borrowing costs for Kenya and prompted capital outflows.
- The annual inflation rate in Kenya edged down to 6.6% in December 2023, remaining within the central bank's preferred range of 2.5 to 7.5%. Inflation mainly rose for food (7.7% vs 7.6%), alcoholic beverages & tobacco (8.5% vs 8.1%), and information & communication (1.2% vs 0.9%).
- The banking sector remains stable and resilient, with strong liquidity and capital adequacy ratios. As of October 2023, the ratio of gross non-performing loans (NPLs) to gross loans was 15.3%. Banks have consistently made adequate provisions for these non-performing loans.

**Future outlook**

- The real GDP is expected to grow between 4.5 –5.2% in 2024. Improved investor confidence and credit to the private sector will strengthen private investment over the medium term. New tax administration and policy measures, including, among others, an increased tax are expected to generate additional revenue.

The Bank intends to enhance its operational and technological capabilities by investing in new systems, solutions, and human resources. Additionally, there are plans to expand the branch network -1 new branch budgeted for in 2024- and channels, enabling the Bank to reach a broader target market and provide an extended array of products and services.

- The Bank plans to continue to maintain adequate capital buffers and liquidity levels, to enable it to respond to unforeseen shocks, while maintaining regulatory thresholds.
- The Bank's management believes that its strategy for the year 2024 will drive both growth and profitability, enabling the Bank to remain profitable amid an uncertain operating environment

**Market Description and Branch Networks**

The Bank currently has 6 branches in Nairobi (4), Eldoret (1) and Nyali, Mombasa (1) and Corporates made up 40% of the customer deposits, while retail customers constitute the remaining 60% in terms of value.

The Bank's loan book is dominated by Corporates Clients, who make up 95 % of the loan portfolio by value with the largest exposures being in Wholesale and Retail Trade, and Finance and Insurance.

**Products and Services**

The Bank's products and services are tailor-made to its customers' needs. The Bank recognizes that customers' needs are dynamic and keep changing according to socioeconomic trends and as such, commits to remain relevant to its clientele. The Bank's product and services range from savings accounts, term accounts, loans as well as insurance products.

**Risk Management**

The Bank has put in place a robust risk management framework, which encompasses strong corporate governance. The Bank's risk appetite is determined and approved by the Board. The Bank continuously identifies risks it is exposed to, scopes and explains the components of these risks, and employs the relevant mitigation response plans for each risk category. These are clearly communicated to all staff through Bank policies and procedures, and periodic trainings.

The Bank continues to monitor all risks affecting its business, in line with the Board-approved Risk Management Framework, to ensure appropriate actions are taken to reduce potential impact.

The Bank also continues to ensure compliance with existing and new regulations issued by the Central Bank and other regulatory authorities.

Refer to note 4 of the financial statements for a description of the Bank's financial risks and how they are mitigated.

**Auditors**

PricewaterhouseCoopers LLP were appointed as the auditors of the Company in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015 and subject to Section 24(1) of the Banking Act (Cap 488) The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

**Directors' statements as to the information given to the auditors.**

With respect to each director at the time of approval of this report:

- so far as the director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

By order of the board



Company secretary

Nairobi, Kenya

14 March 2024

## Statement of directors' responsibilities

The Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Bank as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Bank maintains proper accounting records that are sufficient to show and explain the transactions of the Bank and disclose, with reasonable accuracy, the financial position of the Bank. The directors are also responsible for safeguarding the assets of the Bank, and for taking reasonable steps for the prevention and detection of fraud and error.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the 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.

In preparing the financial statements, the Directors have assessed the Bank's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation in Note 3.1 of the financial statements.

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

Approved by the board of directors on 14 March 2024 and signed on its behalf by:



Tom Gitogo

Chairman



MAGED SHAWKY  
DIRECTOR



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF COMMERCIAL INTERNATIONAL BANK KENYA LIMITED

### Report on the audit of the financial statements

#### *Opinion*

We have audited the accompanying financial statements of Commercial International Bank Kenya Limited (the Bank) set out on pages 14 to 70 which comprise the statement of financial position at 31 December 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statements, comprising material accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of Commercial International Bank Kenya Limited 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 and the requirements of the Companies Act, 2015.

#### *Basis for opinion*

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

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

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

#### *Other information*

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

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## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF COMMERCIAL INTERNATIONAL BANK KENYA LIMITED (CONTINUED)**

### *Responsibilities of the directors for the financial statements*

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

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

### *Auditor's responsibilities for the audit of the financial statements*

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



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF COMMERCIAL INTERNATIONAL BANK KENYA LIMITED (CONTINUED)**

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

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

We communicate with 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 matters prescribed by the Companies Act, 2015**

In our opinion the information given in the report of the directors on pages 7 and 9 is consistent with the financial statements

A handwritten signature in blue ink that reads 'Kang'e Saiti'. The signature is stylized, with the first letter 'K' being large and the rest of the name written in a cursive-like script.

**FCPA Kang'e Saiti, Practicing Certificate Number 1652  
Engagement partner responsible for the audit**

**For and on behalf of PricewaterhouseCoopers LLP  
Certified Public Accountants  
Nairobi**

26 March 2024

**Statement of profit or loss and other comprehensive income for the year ended December 31, 2023**

	<i>Notes</i>	<b>Dec. 31, 2023</b> Ksh Thousands	Dec. 31, 2022 Ksh Thousands
Interest and similar income		1,562,147	1,340,667
Interest and similar expense		<u>(774,269)</u>	<u>(567,257)</u>
<b>Net interest income</b>	<b>6</b>	<b><u>787,878</u></b>	<b><u>773,410</u></b>
Fees and commission income	7	21,116	61,092
Net trading income	8	96,518	20,844
Other operating income	10	<u>6,269</u>	<u>951</u>
<b>Operating income</b>		<b><u>911,781</u></b>	<b><u>856,297</u></b>
Administrative expenses	9	(1,268,615)	(945,041)
Impairment charge for credit losses	11	<u>76,950</u>	<u>(426,406)</u>
<b>Profit / (loss) before income tax</b>		<b><u>(279,884)</u></b>	<b><u>(515,150)</u></b>
Income tax credit	12	<u>280,503</u>	<u>937,994</u>
<b>Net profit for the year</b>		<b><u>619</u></b>	<b><u>422,844</u></b>
<b>Other comprehensive income</b>			
<b>Net profit for the year</b>		<b>619</b>	422,844
<b>Items that will be reclassified subsequently to profit or loss:</b>			
Net change in fair value of debt instruments measured at fair value through other comprehensive income		(247,511)	(158,536)
Net gain on financial assets reclassified to statement of profit or loss		<u>14,955</u>	<u>6,175</u>
<b>Total other comprehensive loss for the year</b>	<b>17</b>	<b><u>(232,556)</u></b>	<b><u>(152,361)</u></b>
<b>Total comprehensive profit for the year</b>		<b><u>(231,937)</u></b>	<b><u>270,483</u></b>
<b>Profit per share</b>	<b>13</b>	<b>0.15</b>	103.60

**Statement of financial position as at December 31, 2023**

	<i>Notes</i>	<b>Dec. 31, 2023</b> Ksh Thousands	Dec. 31, 2022 Ksh Thousands
<b>Assets</b>			
Cash and balances with Central Bank of Kenya	14	1,229,433	716,669
Due from banks, net	15	2,862,462	260,107
Loans and advances to customers, net	16	5,901,605	5,012,029
Derivative financial instruments	20	16,530	-
<b>Financial investments securities</b>			
At Fair value through OCI	17	3,056,662	3,347,073
At Amortized cost	17	2,510,204	1,720,638
Other assets	19	204,734	299,971
Property and equipment	21	270,140	304,098
Intangible assets	22	192,669	195,080
Deferred income tax	28	1,225,955	946,025
Right of use asset	31	73,059	105,332
<b>Total assets</b>		<b>17,543,453</b>	<b>12,907,022</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Due to banks	23	1,646,048	132,810
Customer deposits	24	11,494,870	7,949,075
Other liabilities	25	121,754	278,089
Lease liabilities	32	89,298	123,628
<b>Total liabilities</b>		<b>13,351,970</b>	<b>8,483,602</b>
<b>Equity</b>			
Issued and paid up share capital	26	4,081,633	4,081,633
Share premium	27	1,613,139	1,613,139
Statutory credit risk reserve		86,675	-
Fair value reserve		(379,587)	(147,031)
Accumulated deficit		(1,210,377)	(1,124,321)
<b>Total equity</b>		<b>4,191,483</b>	<b>4,423,420</b>
<b>Total liabilities and equity</b>		<b>17,543,453</b>	<b>12,907,022</b>

The financial statements on page 14 to 70 were approved and authorized for issue by the board of directors on 14 March 2024 and were signed on its behalf by:



.....  
**Tom M. Gitogo**  
Chairman



MAGID SHAWKY  
DIRECTOR



.....  
**Lynette W. Kamande**  
Company Secretary

**Statement of changes in equity for the year ended December 31, 2023**
**Ksh Thousands**

Dec. 31, 2023	<u>Issued and paid up share capital</u>	<u>Share premium</u>	<u>Fair value reserve</u>	<u>Accumulated deficit</u>	<u>Statutory credit risk reserve</u>	<u>Total Shareholders Equity</u>
At start of year	4,081,633	1,613,139	(147,031)	(1,124,321)	-	4,423,420
Net profit for the year	-	-	-	619	-	619
Other comprehensive loss	-	-	(232,556)	-	-	(232,556)
Statutory credit risk reserve				(86,675)	86,675	-
<b>At end of year</b>	<b>4,081,633</b>	<b>1,613,139</b>	<b>(379,587)</b>	<b>(1,210,377)</b>	<b>86,675</b>	<b>4,191,483</b>

**Statement of changes in equity for the year ended December 31, 2022**
**Ksh Thousands**

Dec. 31, 2022	<u>Issued and paid up share capital</u>	<u>Share premium</u>	<u>Fair value reserve</u>	<u>Accumulated Deficit</u>	<u>Statutory credit risk reserve</u>	<u>Total Shareholders Equity</u>
At start of year	4,081,633	1,613,139	5,330	(1,547,165)	-	4,152,937
Net profit for the year	-	-	-	422,844	-	422,844
Other comprehensive loss	-	-	(152,361)	-	-	(152,361)
Statutory credit risk reserve				-	-	-
<b>At end of year</b>	<b>4,081,633</b>	<b>1,613,139</b>	<b>(147,031)</b>	<b>(1,124,321)</b>	<b>-</b>	<b>4,423,420</b>

## Statement of Cash flow for the year ended December 31, 2023

	Notes	Dec. 31, 2023 Ksh Thousands	Dec. 31, 2022 Ksh Thousands
<b>Cash flows from operating activities</b>			
(Loss)/Profit before Income tax		(279,884)	(515,150)
<b>Adjustments for:</b>			
Gain from disposal of property and equipment		-	(866)
Impairment charge/(write back) for credit losses	11	(76,950)	426,406
Depreciation of property and equipment	21	99,582	98,648
Intangible assets amortization	22	60,291	31,390
Depreciation of right-of-use assets	31	35,235	34,333
Interest on lease liabilities	32	11,395	15,203
<b>Operating income before changes in operating assets and liabilities</b>		<u>(150,331)</u>	<u>89,964</u>
<b>Working capital changes:</b>			
Increase in financial investment securities		(752,264)	(49,180)
Increase loans and advances to customers	16	(781,507)	(55,218)
(Increase)/decrease in derivative financial instruments	20	(16,530)	-
Decrease/(increase) in other assets	19	95,238	(24,521)
Decrease/(increase) in due to banks	23	1,513,238	(468,461)
Decrease/(increase) in customer deposits	24	3,545,795	(352,850)
(Increase)/decrease in cash reserve ratio balances	14	(179,880)	(38,162)
Decrease in other liabilities	25	(156,335)	1,304
Income tax paid		-	(8,030)
<b>Net cash flow generated / (used) in operating activities</b>		<u>3,117,424</u>	<u>(905,154)</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	21	(65,624)	(141,892)
Purchase of intangible assets	22	(57,880)	(99,436)
Proceeds from disposal of property and equipment		-	1,032
<b>Net cash flows used in investing activities</b>		<u>(123,504)</u>	<u>(240,296)</u>
<b>Cash flows from financing activities</b>			
Payment of principal portion of lease liabilities	32	(48,687)	(46,358)
<b>Net cash flow used in financing activities</b>		<u>(48,687)</u>	<u>(46,358)</u>
Net decrease in cash and cash equivalents during the year		2,945,233	(1,191,808)
Beginning balance of cash and cash equivalents		584,641	1,776,449
<b>Cash and cash equivalents at the end of the year</b>		<u>3,529,874</u>	<u>584,641</u>
<b>Cash and cash equivalents comprise:</b>			
Cash and balances with the CBK - available for use by the bank	14	657,417	324,534
Due from banks	15	2,872,457	260,107
<b>Total cash and cash equivalents</b>		<u>3,529,874</u>	<u>584,641</u>

## Notes to the financial statements for the year ended December 31, 2023.

### 1. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and the requirements of the Companies Act, 2015.

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

### 2. Incorporation

The Bank is incorporated and domiciled in Kenya under the Kenyan Companies Act, 2015.

### 3. Summary of accounting policies

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

#### 3.1 Basis of preparation

The financial statements are prepared under the historical cost basis of accounting as modified to include the revaluation of financial instruments that are measured at fair value or revalued amounts at the end of each reporting period. The principal accounting policies adopted in the preparation of these financial statements remain unchanged from the previous period.

#### Going concern

The Bank recorded a loss before tax of Shs 279,884,000 for the year ended 31 December 2023 (2022: Loss before tax of Shs 515,150,000), accumulated deficit of Shs 1,066,763,000 as at 31 December 2023 (2022: accumulated deficit of Shs 1,124,321) and a net profit after tax of Shs 691,000 (2022: Shs 422,844,000). In addition, the Bank recorded positive cash generated from operations of Shs 3,117,423,000 for the period ended 31 December 2023 (2022: negative cash generated from operations of Shs 905,154,000) and had current net assets of Shs 2,429,661 at 31 December 2023 (2022: Shs 2,872,903,000).

The Bank recorded a net profit after tax of Shs 691,000 (2022: Shs 422,844,000). In addition, the Bank had net assets of Shs 4,191,483,000 at 31 December 2023 (2022: Shs 4,423,420,000). The Bank maintains sufficient capital and no capital adequacy ratios were breached during the period.

In view of the foregoing, the directors consider it appropriate to prepare the financial statements on a going concern basis.

#### 3.1.1 Changes in accounting policies and disclosure. New standards, amendments and interpretations adopted by the bank.

International Financial Reporting Standards and amendments effective for the first time for December 2023 year-ends		
Number	Effective date	Executive summary
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023  (Published May 2017)	<p>The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.</p> <p>Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.</p> <p>Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.</p> <p>For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value</p>

		changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.
IFRS 17, Insurance contracts Amendments	Annual periods beginning on or after 1 January 2023  (Published June 2020)	In response to some of the concerns and challenges raised, the Board developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard.  Further detailed information is available at the following link: In Brief June 2020.
Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	Annual periods beginning on or after 1 January 2023. (Published May 2021)	The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.
Narrow scope amendments to IAS 1 ‘Presentation of Financial Statements’, Practice statement 2 and IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’	Annual periods beginning on or after 1 January 2023.  (Published February 2021)	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates.
Amendments to IAS 12 International Tax Reform—Pillar Two Model Rules	The deferred tax exemption and disclosure of the fact that the exception has been applied, is effective immediately. The other disclosure requirements are effective annual periods beginning on or after 1 January 2023.  (Published May 2023)	These amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development’s (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.  For further details see In brief INT2023-10.

**New and amended standards, interpretation and amendments issued but not effected.**

<b>International Financial Reporting Standards, interpretations and amendments issued but not effective</b>		
<b>Number</b>	<b>Effective date</b>	<b>Executive summary</b>
Amendments to IAS 1 - Non-current liabilities with covenants	Annual periods beginning on or after 1 January 2024  (Published January 2020 and November 2022)	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.  For further details see In brief INT2022-16.
Amendment to IFRS 16 – Leases on sale and leaseback	Annual periods beginning on or after 1 January 2024  (Published September 2022)	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.  For further details see In depth INT2023-01.
Amendments to Supplier Finance Arrangements (IAS 7 and IFRS 7)	Annual periods beginning on or after 1 January 2024  (Published May 2023)	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.  For further details see In brief INT2023-03.
Amendments to IAS 21 Lack of Exchangeability (Amendments to IAS 21)	Annual periods beginning on or after 1 January 2025  (Published August 2023)	An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.  For further details see In brief INT2023-19.

### **3.2 Revenue recognition**

#### **3.2.1 Interest income and expense**

Interest income and expense for all interest-bearing financial instruments are recognized within the profit or loss on accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instruments (or, where appropriate, a shorter period) to the carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

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

#### **3.2.2 Fees and commissions**

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

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

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

### 3.3 Property and equipment

Property and equipment are stated at historical cost less any accumulated depreciation and any accumulated impairment losses.

#### Depreciation

Depreciation is calculated on the straight-line basis at the following annual rates estimated to write off the cost of property and equipment over its expected useful life as per below.

	<b>Depreciation rates</b>
Leasehold improvements	12.50%
Furniture and fittings	20%
Motor vehicle	20%
Computer equipment	33.33%
Office equipment	20%
Right of use asset	Dependent on lease period/Estimated useful life of asset.
Intangible assets (Core Banking Software)	10%
Intangible assets (Application Software)	33.33%

### 3.4 Foreign currency translation

#### 3.4.1 Functional and presentation currency

The financial statements are presented in Kenya Shillings (Ksh), which is also the Bank's functional currency.

#### 3.4.2 Transactions and balances in foreign currencies

##### Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the Functional Currency'). The financial statements are presented in Kenyan Shillings (Ksh), which is the Bank's Functional and presentation currency.

##### Transactions and balances

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

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

### 3.5 Employee entitlements

Entitlements to annual leave are recognized when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued at the end of the reporting period.

### 3.6 Retirement benefits

The Bank operates a defined contribution retirement benefit scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the employer. The Bank also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute.

The Bank's contributions in respect of retirement benefit costs are charged to profit or loss in the period to which they relate.

### 3.7 Financial instruments

#### Financial assets and liabilities

##### Measurement methods

###### *Amortised cost and effective interest rate*

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and, for financial assets, adjusted for any loss allowances.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets – assets that are credit-impaired at initial recognition, the Bank calculates the credit adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in the profit or loss account.

###### *Interest income*

Interest income and interest expense on interest bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount, except for:

- a) Purchased or originated credit impaired (POCI) financial assets, 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” but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e.net of the expected credit loss provision) in subsequent reporting periods.

###### *Initial recognition and measurement*

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through the profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities at fair value through profit or loss are expensed in profit or loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognized for the financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Bank recognizes the difference as follows:

- a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss; and
- b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. 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 recognized through settlement.

#### Financial assets

- i. Classification and subsequent measurement

The Bank applies IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); and
- Amortised cost.

#### *Debt instruments*

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset.

The Bank classifies its debt instruments into one of the following three measurement categories:

- **Amortised cost:** assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest and similar income" using the effective interest rate method.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on instrument's amortised cost which are recognized in profit or loss. When the financial asset is recognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "Net trading income" using the effective interest rate method; and
- **Fair value through the profit or loss (FVTPL):** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented within "Net trading income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "Net investment income".

**Business model:** The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Bank in determining the business model for a bank of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

**SPPI:** Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. The changes are expected to be very infrequent, and none occurred during the period.

#### ii. Impairment

The Bank assesses on a forward-looking basis the expected credit loss ("ECL") associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.

iii. Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in interest rate.
- Change in the currency of the loan.
- Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the original financial asset and recognized a “new” asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes including for the purpose of determining whether a significant credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognized is deemed to be credit impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate or credit-adjusted effective interest rate for POCI financial assets.

iv. Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either the Bank transfers substantially all the risks and rewards of ownership, or the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as “pass through” transfers that result in derecognition if the Bank:

- i. Has no obligation to make payments unless it collects equivalent amounts from the assets.
- ii. Is prohibited from selling or pledging the assets; and
- iii. Has an obligation to remit any cash it collects from assets without material delays.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowings transactions are not recognized because the Bank retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met.

**Financial liabilities**

Classification and subsequent measurement

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g. short positions in the trading book) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability).
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Bank recognizes any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

## ii) Derecognition

Financial liabilities are recognized when they are extinguished (i.e., when the obligation specified in the contract is discharged, cancelled, or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms 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 liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration.

If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

### **Offsetting financial assets and financial liabilities**

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

## **3.8 Contingent liabilities**

Letters of credit, acceptances, guarantees and performance bonds are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as transactions off the statement of financial position and disclosed as contingent liabilities.

## **3.9 Income tax**

Income tax expense represents the sum of the current income tax and deferred income tax.

### **3.9.1 Current income tax**

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

### **3.9.2 Deferred income tax**

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

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

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

### **Current and deferred Income tax for the period**

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

## **3.10 Leases**

The Bank assesses whether a contract is or contains a lease at inception of the contract. The Bank recognizes a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Bank recognizes the lease payments

as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprises of fixed lease payments (including the substance fixed payments), less any lease incentives.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Bank did not make any such adjustments during the period presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease

The right-of-use assets are presented as a separate line in the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

### **3.11 Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

### **3.12 Derivatives**

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

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

### **3.13 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in profit or loss in the period in which the expenditure is incurred. Intangible assets with finite lives are amortized on a straight-line basis in profit or loss over their estimated useful economic lives, from the date that they are available for use. The amortization method, useful life and the residual value are reviewed at each reporting date and adjusted if appropriate. Changes in the expected useful life, residual value or amortization method are accounted for as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset. The useful lives of intangible assets are assessed to be either finite or indefinite. Costs associated with maintaining computer software programmes are recognized as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and

lives is recognized as a capital improvement and added to the original cost of the software. Computer software development costs recognized as assets are amortized using the straight-line method. There are no intangible assets with indefinite useful lives.

### **3.14 Segment Reporting**

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

### **3.15 Share capital and reserve**

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.

### **3.16 Comparatives**

Comparative figures have been adjusted to conform with changes in the presentation of the current period where necessary.

### **3.17 Critical accounting judgments and key sources of estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

#### **Critical accounting judgements in applying the Bank's policies.**

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### *Measurement of expected credit loss allowance*

The impairment requirements of IFRS 9 require management judgement, estimates and assumptions, particularly in the following areas:

- Determining the criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of ECL
- Establishing the number and relative weightings for a forward-looking scenarios for each type of product and associated ECL
- Establishing groups of similar assets for the purposes of measuring ECL

The expected credit loss allowance on loans and advances is disclosed in more detail in note 4.

## **4. Financial risk management**

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance, and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and rewards and minimize potential adverse effects on the Bank's financial performance. The most important types of financial risks are credit risk, market risk, liquidity risk and other operating risks. Also, market risk includes exchange rate risk, rate of return risk and other prices risks.

The Board Risk and Compliance and the Board Audit 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. These Committees are assisted in these functions by the Risk and Compliance and Internal Audit units. The units undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Risk and Compliance and the Board Audit Committees.

All Board committees have both executive and non-executive members and report regularly to the Board of Directors 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. 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.

### **4.1 Credit risk**

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

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

#### **4.1.1 Credit risk measurement**

The Board of Directors has delegated responsibility for the management of credit risk to the Board Credit Committee. A separate Credit department, reporting to the Board Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Head of Credit, Executive Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and receivables), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Categorising Bank's exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive committee as appropriate. Risk grades are subject to regular reviews by Board Credit Committee.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, and product types. Regular reports are provided to Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

#### **4.1.2 Significant increase in credit risk**

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

#### **4.1.3 Incorporation of forward-looking information.**

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

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

#### **4.1.4 Measurement of ECL**

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the Bank is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as revolving credit facilities and overdraft facilities that include drawn and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. The Bank has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis.

The key inputs used for measuring ECL are:

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

#### Probability of default

PD is an estimate of the likelihood of default over a given time horizon and is estimated as at a point in time. The calculation is based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures.

The 12-month PD is modelled at sector level in line with the sectors prescribed by CBK. The Bank collates internal historical data and determines the PDs using a transition matrix by modelling the monthly transition of loans from one risk rating to the next in the subsequent month. This historical time series will be analyzed over an extended period with a wide range of data points to factor in adequate economic cycles and smoothen irregular economic extremities. The transition modelling will be based on count of loans within the respective sectors.

The transition matrices are aggregated to form a basis of the first months' PD rate and a statistical analysis i.e *Markov process*, is applied to obtain the lifetime monthly PDs. Markov chain is a mathematical methodology that can model transitions to estimate future default probabilities using historical data. The marginal PDs are then derived from the cumulative PDs in the transitions and is used to represent the likelihood of a default occurring in a defined period with no experienced default experienced in a prior period.

As per IFRS9 guidelines [B5.5.4], the credit risk information must incorporate not only past due information but also all relevant credit information, including forward-looking macroeconomic information, to approximate the lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition on an individual instrument level. Once the marginal PDs are modelled, the Vasicek methodology is applied to integrate the historical default probabilities and the forward-looking information as a basis for the macro-adjusted PDs. A regression is run across wide range of macroeconomic factors to model the variables that have a statistical significance to the bank's non-performing loans experience. The Vasicek framework is a commonly used framework based on a single risk factor model assumed by the Basel committee on banking supervisions to transform unconditional Point in Time (PiT) PDs into conditional PiT PDs.

The IFRS9 guidelines additionally requires the estimate of expected credit losses to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. To achieve these scenarios and probability weighted PDs, the bank incorporates the CBK credit survey quarterly report which provides an estimated projection determined within the banking industry on whether the NPL ratio for different sectors will rise, fall, or remain unchanged.

The Bank's estimation of the PD has been reviewed and verified independently and subsequently found to be compliant with the IFRS9 standard.

#### Loss given default

Loss given default (LGD) is the magnitude of the likely loss if there is a default. This is computed as the loss the Bank would experience after considering the discounted value of all possible cash flows that can be obtained from the borrower. The Bank considers various forms of collateral in making this determination. The LGD models for secured assets consider forecasts of future collateral valuation considering sale discounts and time to realisation of collateral. LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

#### Exposure at default

Exposure at default (EAD) is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios. The ECL is computed on an annual basis, hence a rundown of the current outstanding balance to nil is calculated to determine the EAD at these annual points.

#### 4.1.5 Internal credit risk ratings

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

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based

on the available information about the counterparty. All exposures are monitored, and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Bank's exposures:

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

The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower. The table below provides a mapping of the Bank's internal credit grades.

<b>Bank's credit risk grades</b>	<b>Description CBK</b>	<b>Description IFRS 9</b>
Grade 1	Normal risk	Stage 1
Grade 2	Watch risk	Stage 2
Grade 3	Substandard risk	Stage 3
Grade 4	Doubtful risk	Stage 3
Grade 5	Loss	Stage 3

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

The Bank uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

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

**CBK Provisioning**

Below is a statement of institutional worthiness according to internal ratings, compared to CBK ratings and rates of provisions needed for assets impairment related to credit risk:

CBK Rating	Category	CBK		Category
		Provision %	Internal rating	
Normal	Low risk	1%	Grade 1	Performing loans
Watch	Watch list	3%	Grade 2	Watch list
Substandard	Substandard	20%	Grade 3	Non performing loans
Doubtful	Doubtful	100%	Grade 4	Non performing loans
Loss	Bad debts	100%	Grade 5	Non performing loans

**4.1.6. Maximum exposure to credit risk before collateral held**

The Bank is exposed to credit risk arising on other financial assets as included in the statement of financial position. As part of the credit risk management system, the Bank's management reviews information on significant amounts. The Bank's management assesses the credit quality of each counterparty, taking into account its financial position, past experience and other factors. The credit risk on amounts due from banking institutions, corporate bonds, government securities and balances with Central Bank of Kenya is limited because the counterparties are banks, the governments and corporations with high credit ratings.

The amount that best represents the Bank's such exposure to credit risk, at the end of the year is made up as follows:

	Dec. 31, 2023 Ksh Thousands	Dec. 31, 2022 Ksh Thousands
<b>On balance sheet items exposed to credit risk</b>		
Cash and balances with central bank	1,229,433	716,669
Due from banks	2,872,456	260,892
Less: Impairment provision	(9,994)	(785)
<b>Gross loans and advances to customers</b>	<b>6,463,369</b>	<b>5,681,862</b>
<b>Individual:</b>		
- Overdraft	27,747	48,126
- Personal loans	221,784	1,177,905
- Mortgages	62,774	49,478
<b>Corporate:</b>		
- Overdraft	1,133,838	777,301
- Loans	5,017,226	3,629,052
Impairment provision	(561,764)	(669,833)
Derivative financial instruments	16,530	-
Financial investments:		
- Debt instruments	5,624,420	5,107,162
Impairment provision	(57,554)	(39,451)
Other assets	158,580	247,888
<b>Total</b>	<b>15,735,476</b>	<b>11,304,404</b>
<b>Off balance sheet items exposed to credit risk</b>		
Other contingent liabilities	858,550	702
Letters of credit (import and export)	36,174	874,574
Letter of guarantee	207,394	165,724
<b>Total</b>	<b>1,102,118</b>	<b>1,041,000</b>

The above table represents the Bank's Maximum exposure to credit risk on December 31, 2023, before taking into account any held collateral. For assets recognized on balance sheet, the exposures set out above are based on net carrying amounts as reported in the balance sheet. As shown above, 37.40% of the total maximum exposure is derived from loans and advances to customers, 18.14% due from banks while investments in debt instruments represent 35.27%.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from both the bank's loans and advances portfolio and debt instruments based on the following:

- 86.35% of the loans and advances are concentrated in the top two grades of the internal credit risk rating system.
- 80.35% of loans and advances portfolio are considered to be neither past due nor impaired.
- The Bank has implemented more prudent processes when granting loans and advances during the financial year ended on December.31, 2023.
- 100% of the investments in debt instruments are Kenyan sovereign instruments.

#### 4.1.7. Classification of loans and other receivables

##### Stage 1 assets

The Bank classifies loans and receivables under this category if they are up to date and in line with their contractual agreements. Such loans would have demonstrated the meeting of their financial and non-financial conditions and the borrowers would have proven capacity to repay the loans. These exposures will normally be maintained largely within approved facility programs and with no depiction of impairment or distress signs. These exposures are categorised as normal accounts (category 1) in accordance with the Central Bank of Kenya Prudential Guidelines.

##### Stage 2 assets

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Bank. These loans are categorised as watch accounts (category 2) in accordance with the Central Bank of Kenya Prudential Guidelines.

##### Stage 3 assets

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded substandard, doubtful and loss in accordance with the Central Bank of Kenya Prudential Guidelines.

##### Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured under these terms, it remains in this category for six months after which the category is reviewed.

##### Allowances for impairment

The Bank records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit losses or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses.

##### Write-off policy

The Bank writes off a loan / balance (and any related allowances for impairment losses) when the Credit Committee determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance loans, write off decisions are generally based on specific past due status.

##### Collateral held

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of restructuring or downgrading of the account, and generally are not updated except when a loan is individually assessed as impaired or where there is a market for the security. Collateral is generally not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral is usually not held against government securities, and no such collateral was held at December.31, 2023 (2022: nil).

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

##### Loans and advances to customers:

	Dec. 31, 2023	Dec. 31, 2022
	Ksh Thousands	Ksh Thousands
<b>Stage 1 assets</b>		
Property	7,411,660	4,758,260
Other	5,142,727	2,685,467
<b>Stage 2 assets</b>		
Property	637,420	2,606,760
Other	291,139	365,560
<b>Stage 3 assets</b>		
Property	1,148,004	2,201,410
Other	305,944	131,126
	<u>14,936,894</u>	<u>12,748,583</u>

The main types of collateral and the types of assets these are associated with are listed in the table below. The collateral presented relates to instruments that are measured at FVTOCI and amortised cost

	Percentage of Exposure that is subject to collateral		Type of Collateral held
	Dec. 31, 2023	Dec. 31, 2022	
Loans and advances to banks	-	-	-
Mortgage lending	100%	100%	Property
Personal lending	80%	66%	Property, equipment & insurance bonds, Guarantees, Cash ,Govt Securities, Shares
Corporate lending	92%	90%	Property, equipment, Stock, insurance bonds, Guarantees, Cash ,Govt Securities, Shares

The Bank holds collateral to mitigate against the credit risk of its financial instruments. Accordingly, where the forced sale value of the collateral is higher than the total credit risk exposure for any financial instrument, after the consideration of the time to realisation of the collateral, no loss allowance is recognised at December 31, 2023. There was no change in the Bank's collateral policy during the year.

#### 4.1.8. Credit quality

##### Concentrations of risk

The Bank monitors concentrations of credit risk by sector. Details of significant concentrations of the Bank's assets, liabilities and items off the statement of financial position by industry are as detailed below:

##### Advances to customers

	Dec. 31, 2023 Ksh Thousands	Dec. 31, 2023 %	Dec. 31, 2022 Ksh Thousands	Dec. 31, 2022 %
Agriculture	74,965	1%	85,637	2%
Building and Construction	550,150	9%	565,468	10%
Business Services	344,642	5%	208,691	4%
Electricity and Water	96	0%	1,021	0%
Finance and Insurance	1,908,702	30%	832,538	15%
Manufacturing	1,194,576	18%	805,415	14%
Mining and Quarrying	77,752	1%	110,526	2%
Other Activities and Enterprises	209,224	3%	606,220	11%
Real Estate	60,012	1%	86,152	2%
Personal/Household	1,052,482	16%	1,277,729	22%
Transport & Communication	322,382	5%	345,042	6%
Wholesale and Retail Trade	668,386	10%	757,423	13%
<b>Total</b>	<b>6,463,369</b>	<b>100%</b>	<b>5,681,862</b>	<b>100%</b>

##### Customer deposits

	Dec. 31, 2023 Ksh Thousands	Dec. 31, 2023 %	Dec. 31, 2022 Ksh Thousands	Dec. 31, 2022 %
Non-profit institutions and individuals	6,288,955	55%	4,100,827	52%
Private enterprises	4,921,025	43%	3,660,938	64%
Insurance companies	284,890	2%	187,310	3%
<b>Total</b>	<b>11,494,870</b>	<b>100%</b>	<b>7,949,075</b>	<b>100%</b>

##### Off balance sheet items

	Dec. 31, 2023 Ksh Thousands	Dec. 31, 2023 %	Dec. 31, 2022 Ksh Thousands	Dec. 31, 2022 %
Building and Construction	146,013	13%	-	0%
Electricity and Water	18,673	2%	17,788	2%
Finance and Insurance	8,324	1%	8,000	1%
Manufacturing	-	0%	863,306	83%
Social, Community & Personal Services	-	0%	1,000	0%
Transport & Communication	12,098	1%	-	0%
Wholesale and Retail Trade	58,460	5%	150,204	14%
Other contingent liabilities	858,550	78%	702	0%
<b>Total</b>	<b>1,102,118</b>	<b>100%</b>	<b>1,041,000</b>	<b>100%</b>

**4.1.9. Loans and advances**

Loans and advances are summarized as follows:

	Dec.31, 2023	Dec.31, 2022
	Ksh Thousands	Ksh Thousands
	<u>Loans and advances to customers</u>	<u>Loans and advances to customers</u>
Gross Loans and advances	6,463,369	5,681,862
Less:		
Impairment provision	(561,764)	(669,833)
Net	<u>5,901,605</u>	<u>5,012,029</u>

**Total balances of loans and advances to customers divided by stages:**

	Dec.31, 2023				
	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
Individuals	241,939	14,828	55,538	-	312,305
Corporate and Business Banking	4,951,335	375,749	823,980	-	6,151,064
<b>Total</b>	<u>5,193,274</u>	<u>390,577</u>	<u>879,518</u>	<u>-</u>	<u>6,463,369</u>

  

	Dec.31, 2022				
	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
Individuals	1,057,371	142,212	75,926	-	1,275,509
Corporate and Business Banking	3,254,089	441,260	711,004	-	4,406,353
<b>Total</b>	<u>4,311,460</u>	<u>583,472</u>	<u>786,930</u>	<u>-</u>	<u>5,681,862</u>

**Expected credit losses for loans and advances to customers divided by stages:**

	Dec.31, 2023				
	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
Individuals	16,356	1,828	47,050	-	65,234
Corporate and Business Banking	58,392	32,425	405,713	-	496,530
<b>Total</b>	<u>74,748</u>	<u>34,253</u>	<u>452,763</u>	<u>-</u>	<u>561,764</u>

  

	Dec.31, 2022				
	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
Individuals	5,837	473	52,345	-	58,655
Corporate and Business Banking	126,589	44,828	439,761	-	611,178
<b>Total</b>	<u>132,426</u>	<u>45,301</u>	<u>492,106</u>	<u>-</u>	<u>669,833</u>

**Expected credit losses for government securities**

	Dec.31, 2023				
	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
Amortized cost	57,554	-	-	-	57,554
<b>Total</b>	<u>57,554</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,554</u>

  

	Dec.31, 2022				
	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
Amortized cost	39,451	-	-	-	39,451
<b>Total</b>	<u>39,451</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,451</u>

The total balances of loans and facilities divided according to the internal classification:

**Corporate and Business Banking loans:**

Dec.31, 2023	<u>Scope of probability of default (PD)</u>	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
Grade 1: Normal	1%-14%	4,951,335	-	-	-	4,951,335
Grade 2: Watch	14%-28%	-	375,749	-	-	375,749
Grade 3: Substandard	100%	-	-	234,282	-	234,282
Grade 4: Doubtful	100%	-	-	244,460	-	244,460
Grade 5: Loss	100%	-	-	345,238	-	345,238
		<u>4,951,335</u>	<u>375,749</u>	<u>823,980</u>	-	<u>6,151,064</u>

**Individual Loans:**

Dec.31, 2023	<u>Scope of probability of default (PD)</u>	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
Grade 1: Normal	1%-15%	241,939	-	-	-	241,939
Grade 2: Watch	15%-30%	-	14,828	-	-	14,828
Grade 3: Substandard	100%	-	-	1,051	-	1,051
Grade 4: Doubtful	100%	-	-	954	-	954
Grade 5: Loss	100%	-	-	53,533	-	53,533
		<u>241,939</u>	<u>14,828</u>	<u>55,538</u>	-	<u>312,305</u>

**Corporate and Business Banking loans:**

Dec.31, 2022	<u>Scope of probability of default (PD)</u>	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
Grade 1: Normal	1%-14%	3,254,089	-	-	-	3,254,089
Grade 2: Watch	14%-28%	-	441,260	-	-	441,260
Grade 3: Substandard	100%	-	-	405,263	-	405,263
Grade 4: Doubtful	100%	-	-	235,562	-	235,562
Grade 5: Loss	100%	-	-	70,179	-	70,179
		<u>3,254,089</u>	<u>441,260</u>	<u>711,004</u>	-	<u>4,406,353</u>

**Individual Loans:**

Dec.31, 2022	<u>Scope of probability of default (PD)</u>	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
Grade 1: Normal	1%-15%	1,057,371	-	-	-	1,057,371
Grade 2: Watch	15%-30%	-	142,212	-	-	142,212
Grade 3: Substandard	100%	-	-	7,105	-	7,105
Grade 4: Doubtful	100%	-	-	4,183	-	4,183
Grade 5: Loss	100%	-	-	64,638	-	64,638
		<u>1,057,371</u>	<u>142,212</u>	<u>75,926</u>	-	<u>1,275,509</u>

**Expected credit losses divided by internal classification:**
**Corporate and Business Banking loans:**

<b>Dec.31, 2023</b>	<b>Scope of probability of default (PD)</b>	<b>Stage 1: Expected credit losses over 12 months</b>	<b>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</b>	<b>Stage 3: Expected credit losses Over a lifetime Credit default</b>	<b>Individually impaired</b>	<b>Total</b>
Grade 1: Normal	1%-14%	58,392	-	-	-	58,392
Grade 2: Watch	14%-28%	-	32,425	-	-	32,425
Grade 3: Substandard	100%	-	-	83,943	-	83,943
Grade 4: Doubtful	100%	-	-	149,740	-	149,740
Grade 5: Loss	100%	-	-	172,030	-	172,030
		<u>58,392</u>	<u>32,425</u>	<u>405,713</u>	<u>-</u>	<u>496,530</u>

**Individual Loans:**

<b>Dec.31, 2023</b>	<b>Scope of probability of default (PD)</b>	<b>Stage 1: Expected credit losses over 12 months</b>	<b>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</b>	<b>Stage 3: Expected credit losses Over a lifetime Credit default</b>	<b>Individually impaired</b>	<b>Total</b>
Grade 1: Normal	1%-15%	16,356	-	-	-	16,356
Grade 2: Watch	15%-30%	-	1,828	-	-	1,828
Grade 3: Substandard	100%	-	-	-	-	-
Grade 4: Doubtful	100%	-	-	954	-	954
Grade 5: Loss	100%	-	-	46,096	-	46,096
		<u>16,356</u>	<u>1,828</u>	<u>47,050</u>	<u>-</u>	<u>65,234</u>

**Corporate and Business Banking loans:**

<b>Dec.31, 2022</b>	<b>Scope of probability of default (PD)</b>	<b>Stage 1: Expected credit losses over 12 months</b>	<b>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</b>	<b>Stage 3: Expected credit losses Over a lifetime Credit default</b>	<b>Individually impaired</b>	<b>Total</b>
Grade 1: Normal	1%-14%	126,589	-	-	-	126,589
Grade 2: Watch	14%-28%	-	44,828	-	-	44,828
Grade 3: Substandard	100%	-	-	226,536	-	226,536
Grade 4: Doubtful	100%	-	-	156,832	-	156,832
Grade 5: Loss	100%	-	-	56,393	-	56,393
		<u>126,589</u>	<u>44,828</u>	<u>439,761</u>	<u>-</u>	<u>611,178</u>

**Individual Loans:**

<b>Dec.31, 2022</b>	<b>Scope of probability of default (PD)</b>	<b>Stage 1: Expected credit losses over 12 months</b>	<b>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</b>	<b>Stage 3: Expected credit losses Over a lifetime Credit default</b>	<b>Individually impaired</b>	<b>Total</b>
Grade 1: Normal	1%-15%	5,837	-	-	-	5,837
Grade 2: Watch	15%-30%	-	473	-	-	473
Grade 3: Substandard	100%	-	-	1,261	-	1,261
Grade 4: Doubtful	100%	-	-	2,101	-	2,101
Grade 5: Loss	100%	-	-	48,983	-	48,983
		<u>5,837</u>	<u>473</u>	<u>52,345</u>	<u>-</u>	<u>58,655</u>

The following table provides information on the quality of financial assets during the financial year:

Dec.31, 2023

<b>Due from banks</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12 months</b>	<b>Life time</b>	<b>Life time</b>	
<b>Credit rating</b>				
Grade 1: Normal	2,872,456	-	-	2,872,456
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
<b>Total</b>	<b>2,872,456</b>	<b>-</b>	<b>-</b>	<b>2,872,456</b>
Less: Impairment provision	(9,994)	-	-	(9,994)
<b>Net</b>	<b>2,862,462</b>	<b>-</b>	<b>-</b>	<b>2,862,462</b>

<b>Individual Loans:</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12 months</b>	<b>Life time</b>	<b>Life time</b>	
<b>Credit rating</b>				
Grade 1: Normal	241,939	-	-	241,939
Grade 2: Watch	-	14,828	-	14,828
Grade 3: Substandard	-	-	1,051	1,051
Grade 4: Doubtful	-	-	954	954
Grade 5: Loss	-	-	53,533	53,533
<b>Total</b>	<b>241,939</b>	<b>14,828</b>	<b>55,538</b>	<b>312,305</b>
Less: Impairment provision	(16,356)	(1,828)	(47,050)	(65,234)
<b>Net</b>	<b>225,583</b>	<b>13,000</b>	<b>8,488</b>	<b>247,071</b>

<b>Corporate and Business</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12 months</b>	<b>Life time</b>	<b>Life time</b>	
<b>Banking loans:</b>				
<b>Credit rating</b>				
Grade 1: Normal	4,951,335	-	-	4,951,335
Grade 2: Watch	-	375,749	-	375,749
Grade 3: Substandard	-	-	234,282	234,282
Grade 4: Doubtful	-	-	244,460	244,460
Grade 5: Loss	-	-	345,238	345,238
<b>Total</b>	<b>4,951,335</b>	<b>375,749</b>	<b>823,980</b>	<b>6,151,064</b>
Less: Impairment provision	(58,392)	(32,425)	(405,713)	(496,530)
<b>Net</b>	<b>4,892,943</b>	<b>343,324</b>	<b>418,267</b>	<b>5,654,534</b>

<b>Financial Assets at Fair value through OCI</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12 months</b>	<b>Life time</b>	<b>Life time</b>	
<b>Credit rating</b>				
Grade 1: Normal	3,056,662	-	-	3,056,662
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
<b>Total</b>	<b>3,056,662</b>	<b>-</b>	<b>-</b>	<b>3,056,662</b>
Less: Impairment provision	-	-	-	-
<b>Net</b>	<b>3,056,662</b>	<b>-</b>	<b>-</b>	<b>3,056,662</b>

<b>Financial Assets at Amortized cost</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12 months</b>	<b>Life time</b>	<b>Life time</b>	
<b>Credit rating</b>				
Grade 1: Normal	2,567,758	-	-	2,567,758
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
<b>Total</b>	<b>2,567,758</b>	<b>-</b>	<b>-</b>	<b>2,567,758</b>
Less: Impairment provision	(57,554)	-	-	(57,554)
<b>Net</b>	<b>2,510,204</b>	<b>-</b>	<b>-</b>	<b>2,510,204</b>

The following table provides information on the quality of financial assets during the financial year:

Dec.31, 2022	Ksh Thousands			
<u>Due from banks</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<u>Credit rating</u>	<u>12 months</u>	<u>Life time</u>	<u>Life time</u>	
Grade 1: Normal	260,893	-	-	260,893
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
<b>Total</b>	<b>260,893</b>	<b>-</b>	<b>-</b>	<b>260,893</b>
Less:Impairment provision	(785)	-	-	(785)
<b>Net</b>	<b>260,107</b>	<b>-</b>	<b>-</b>	<b>260,107</b>

<u>Individual Loans:</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<u>Credit rating</u>	<u>12 months</u>	<u>Life time</u>	<u>Life time</u>	
Grade 1: Normal	1,057,371	-	-	1,057,371
Grade 2: Watch	-	142,212	-	142,212
Grade 3: Substandard	-	-	7,105	7,105
Grade 4: Doubtful	-	-	4,183	4,183
Grade 5: Loss	-	-	64,638	64,638
<b>Total</b>	<b>1,057,371</b>	<b>142,212</b>	<b>75,926</b>	<b>1,275,509</b>
Less:Impairment provision	(5,837)	(473)	(52,345)	(58,655)
<b>Net</b>	<b>1,051,534</b>	<b>141,739</b>	<b>23,581</b>	<b>1,216,854</b>

<u>Corporate and Business Banking loans:</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<u>Credit rating</u>	<u>12 months</u>	<u>Life time</u>	<u>Life time</u>	
Grade 1: Normal	3,254,089	-	-	3,254,089
Grade 2: Watch	-	441,260	-	441,260
Grade 3: Substandard	-	-	405,263	405,263
Grade 4: Doubtful	-	-	235,562	235,562
Grade 5: Loss	-	-	70,179	70,179
<b>Total</b>	<b>3,254,089</b>	<b>441,260</b>	<b>711,004</b>	<b>4,406,353</b>
Less:Impairment provision	(126,589)	(44,828)	(439,761)	(611,178)
<b>Net</b>	<b>3,127,500</b>	<b>396,432</b>	<b>271,243</b>	<b>3,795,175</b>

<u>Financial Assets at Fair value through OCI</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<u>Credit rating</u>	<u>12 months</u>	<u>Life time</u>	<u>Life time</u>	
Grade 1: Normal	3,347,073	-	-	3,347,073
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
<b>Total</b>	<b>3,347,073</b>	<b>-</b>	<b>-</b>	<b>3,347,073</b>
Less:Impairment provision	-	-	-	-
<b>Net</b>	<b>3,347,073</b>	<b>-</b>	<b>-</b>	<b>3,347,073</b>

<u>Financial Assets at Amortized cost</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Grade 1: Normal	1,760,089	-	-	1,760,089
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
<b>Total</b>	<b>1,760,089</b>	<b>-</b>	<b>-</b>	<b>1,760,089</b>
Less:Impairment provision	(39,451)	-	-	(39,451)
<b>Net</b>	<b>1,720,638</b>	<b>-</b>	<b>-</b>	<b>1,720,638</b>

The following table shows changes in expected ECL losses between the beginning and end of the year as a result of these factors:

Dec.31, 2023

Ksh Thousands

<b>Due from banks</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Provision for credit losses on 1 January 2023	785	-	-	785
New financial assets purchased or issued	9,994	-	-	9,994
Matured or disposed financial assets	(785)	-	-	(785)
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Write off during the year	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
<b>Ending balance</b>	<b>9,994</b>	<b>-</b>	<b>-</b>	<b>9,994</b>

<b>Individual Loans:</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Provision for credit losses on 1 January 2023	5,837	473	52,345	58,655
Impairment during the year	10,519	1,355	(5,295)	6,579
Write off during the year	-	-	-	-
Recoveries	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
<b>Ending balance</b>	<b>16,356</b>	<b>1,828</b>	<b>47,050</b>	<b>65,234</b>

<b>Corporate and Business Banking loans:</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12 months</b>	<b>Life time</b>	<b>Life time</b>	
Provision for credit losses on 1 January 2023	126,589	44,828	439,760	611,177
New financial assets purchased or issued	52,005	12,231	88,956	153,192
Matured or disposed financial assets	(1,611)	(305)	(135,759)	(137,675)
Transferred to stage 1	3,414	(3,414)	-	-
Transferred to stage 2	(1,577)	1,577	-	-
Transferred to stage 3	(88,775)	(2,814)	91,589	-
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	(31,653)	(19,402)	(76,698)	(127,753)
Recoveries	-	-	-	-
Write off during the year	-	(276)	(2,135)	(2,411)
Cumulative foreign currencies translation differences	-	-	-	-
<b>Ending balance</b>	<b>58,392</b>	<b>32,425</b>	<b>405,713</b>	<b>496,530</b>

<b>Financial Assets at Fair value through OCI</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12 months</b>	<b>Life time</b>	<b>Life time</b>	
New financial assets purchased or issued	-	-	-	-
Matured or disposed financial assets	-	-	-	-
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Write off during the year	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
<b>Ending balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>Financial Assets at Amortized cost</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12 months</b>	<b>Life time</b>	<b>Life time</b>	
New financial assets purchased or issued	57,554	-	-	57,554
Matured or disposed financial assets	-	-	-	-
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Write off during the year	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
<b>Ending balance</b>	<b>57,554</b>	<b>-</b>	<b>-</b>	<b>57,554</b>

The following table shows changes in expected ECL losses between the beginning and end of the year as a result of these factors:

Dec.31, 2022

<b>Due from banks</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Provision for credit losses on 1 January 2022	2,085	-	-	2,085
New financial assets purchased or issued	785	-	-	785
Matured or disposed financial assets	(2,085)	-	-	(2,085)
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Write off during the year	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
<b>Ending balance</b>	<b>785</b>	<b>-</b>	<b>-</b>	<b>785</b>

<b>Individual Loans:</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Provision for credit losses on 1 January 2022	5,396	4,003	87,795	97,194
Impairment during the year	441	(3,530)	(35,313)	(38,402)
Write off during the year	-	-	(137)	(137)
Recoveries	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
<b>Ending balance</b>	<b>5,837</b>	<b>473</b>	<b>52,345</b>	<b>58,655</b>

<b>Corporate and Business Banking loans:</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12 months</b>	<b>Life time</b>	<b>Life time</b>	
Provision for credit losses on 1 January 2022	51,790	27,521	101,644	180,955
New financial assets purchased or issued	94,328	4,259	164,097	262,684
Matured or disposed financial assets	(1,347)	(243)	(28,937)	(30,527)
Transferred to stage 1	7,256	(7,256)	-	-
Transferred to stage 2	(2,965)	13,467	(10,502)	-
Transferred to stage 3	(4,338)	(17,043)	21,381	-
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	(18,135)	24,123	192,078	198,066
Recoveries	-	-	-	-
Write off during the year	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
<b>Ending balance</b>	<b>126,589</b>	<b>44,828</b>	<b>439,761</b>	<b>611,178</b>

<b>Financial Assets at Fair value through OCI</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12 months</b>	<b>Life time</b>	<b>Life time</b>	
Provision for credit losses on 1 January 2022	-	-	-	-
New financial assets purchased or issued	-	-	-	-
Matured or disposed financial assets	-	-	-	-
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Write off during the year	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
<b>Ending balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>Financial Assets at Amortized cost</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12 months</b>	<b>Life time</b>	<b>Life time</b>	
Provision for credit losses on 1 January 2022	39,451	-	-	39,451
New financial assets purchased or issued	-	-	-	-
Matured or disposed financial assets	-	-	-	-
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Write off during the year	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
<b>Ending balance</b>	<b>39,451</b>	<b>-</b>	<b>-</b>	<b>39,451</b>

As discussed in the significant increase in credit risk section, under the Bank's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

**Loans and advances to customers**

	Ksh Thousands
	Gross
<b>Dec.31, 2023</b>	
IFRS 9 Stage 1 (0- 30 days)	5,193,274
IFRS 9 Stage 2 (31- 90 days)	390,577
IFRS 9 Stage 3(Over 90 days)	879,518
<b>Total</b>	<b>6,463,369</b>
<b>Dec.31, 2022</b>	
IFRS 9 Stage 1 (0- 30 days)	4,311,460
IFRS 9 Stage 2 (31- 90 days)	583,472
IFRS 9 Stage 3(Over 90 days)	786,930
<b>Total</b>	<b>5,681,862</b>

**Restructured loans and advances**

Restructuring activities include rescheduling arrangements, applying obligatory management programs, modifying and deferral of payments. The application of restructuring policies are based on indicators or criteria of credit performance of the borrower that is based on the personal judgment of the management, which indicate that payment will most likely continue. Restructured loans at the end of the year were as below:

	Dec.31, 2023 Ksh Thousands	Dec.31, 2022 Ksh Thousands
<b>Loans and advances to customer</b>		
<b>Corporates</b>	122,970	34,292
<b>Individuals</b>	-	-
<b>Total</b>	<b>122,970</b>	<b>34,292</b>

**4.1.10. Financial investments:**

The following table represents an analysis of financial investment balances by rating agencies at the end of the year based on Standard & Poor's valuation and its equivalent.

**Dec.31, 2023**

	Ksh Thousands				
<u>Amortized cost</u>	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	2,510,204	-	-	-	2,510,204
Not rated	-	-	-	-	-
<b>Total</b>	<b>2,510,204</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,510,204</b>

**Dec.31, 2023**

	Ksh Thousands				
<u>Fair value through OCI</u>	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	3,056,662	-	-	-	3,056,662
Not rated	-	-	-	-	-
<b>Total</b>	<b>3,056,662</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,056,662</b>

The following table represents an analysis of financial investment balances by rating agencies at the end of the year based on Standard & Poor's valuation and its equivalent.

Dec.31, 2022

	<u>Amortized cost</u>				<u>Total</u>
	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	1,720,638	-	-	-	1,720,638
Not rated	-	-	-	-	-
<b>Total</b>	<b>1,720,638</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,720,638</b>

Ksh Thousands

Dec.31, 2022

	<u>Fair value through OCI</u>				<u>Total</u>
	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	3,347,073	-	-	-	3,347,073
Not rated	-	-	-	-	-
<b>Total</b>	<b>3,347,073</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,347,073</b>

Ksh Thousands

The following table shows the analysis of impairment on credit losses of financial investments by rating agencies at the year end based on Standard & Poor's valuation and its equivalent.

Dec.31, 2023

<u>Fair value through OCI</u>	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
	AAA	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	-	-	-	-	-
Not rated	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Dec.31, 2022

<u>Fair value through OCI</u>	<u>Stage 1: Expected credit losses over 12 months</u>	<u>Stage 2: Expected credit losses Over a lifetime that is not creditworthy</u>	<u>Stage 3: Expected credit losses Over a lifetime Credit default</u>	<u>Individually impaired</u>	<u>Total</u>
	AAA	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	-	-	-	-	-
Not rated	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**4.1.11. Concentration of risks of financial assets with credit risk exposure**
**4.1.11.1. Geographical sectors**

Following is a breakdown of the Bank's main credit exposure at their book values categorized by geographical region at the end of the year.

The Bank has allocated exposures to regions based on the region of domicile of its counterparties.

Ksh Thousands

	<u>Nairobi</u>	<u>Coast</u>	<u>Rift valley</u>	<u>Total</u>
<b>Dec.31, 2023</b>				
Cash and balances with Central Bank of Kenya	1,208,187	11,309	9,937	1,229,433
Due from banks	2,872,456	-	-	2,872,456
Gross loans and advances to banks				-
Less: Impairment provision	(9,994)	-	-	(9,994)
<b>Gross loans and advances to customers</b>				
<b>Individual:</b>				
- Overdrafts	27,113	575	59	27,747
- Personal loans	185,738	25,001	11,045	221,784
- Mortgages	48,479	14,295	-	62,774
<b>Corporate:</b>				
- Overdrafts	964,388	57,114	112,336	1,133,838
- Other loans	3,610,140	970,822	436,264	5,017,226
Impairment provision	(363,710)	(66,647)	(131,407)	(561,764)
Derivative financial instruments	16,530	-	-	16,530
<b>Financial investments:</b>				
- Debt instruments	5,624,420	-	-	5,624,420
Impairment provision	(57,554)	-	-	(57,554)
<b>Total</b>	<b>14,126,193</b>	<b>1,012,469</b>	<b>438,234</b>	<b>15,576,896</b>

	<u>Nairobi</u>	<u>Coast</u>	<u>Rift valley</u>	<u>Total</u>
<b>Dec.31, 2022</b>				
Cash and balances with Central Bank of Kenya	695,581	9,356	11,732	716,669
Due from banks	260,892	-	-	260,892
Less: Impairment provision	(785)	-	-	(785)
<b>Gross loans and advances to customers</b>				
<b>Individual:</b>				
- Overdrafts	47,550	576	-	48,126
- Personal loans	1,028,372	141,018	8,515	1,177,905
- Mortgages	29,569	14,229	5,680	49,478
<b>Corporate:</b>				
- Overdrafts	648,057	25,699	103,545	777,301
- Other loans	2,208,015	875,113	545,924	3,629,052
Impairment provision	(346,010)	(91,675)	(232,148)	(669,833)
<b>Financial investments:</b>				
- Debt instruments	5,107,161	-	-	5,107,161
Impairment provision	(39,451)	-	-	(39,451)
<b>Total</b>	<b>9,638,951</b>	<b>974,316</b>	<b>443,248</b>	<b>11,056,515</b>

**4.1.11.2. Industry sectors**

The following table analyses the Bank's main credit exposure at their book value categorized by the customers activities.

Ksh Thousands

Dec.31, 2023	<u>Agriculture</u>	<u>Building and Construction</u>	<u>Business Services</u>	<u>Electricity and Water</u>	<u>Finance and Insurance</u>	<u>Individual</u>	<u>Manufacturing</u>	<u>Government sector</u>	<u>Mining and Quarrying</u>	<u>Other Activities and</u>	<u>Real estate</u>	<u>Transport and Communication</u>	<u>Wholesale and retail trade</u>	<u>Total</u>
Cash and balances with Central Bank of Kenya	-	-	-	-	1,229,433	-	-	-	-	-	-	-	-	1,229,433
Due from banks	-	-	-	-	2,872,456	-	-	-	-	-	-	-	-	2,872,456
Less: Impairment provision	-	-	-	-	(9,994)	-	-	-	-	-	-	-	-	(9,994)
<b>Gross loans and advances to customers</b>														
<b>Individual:</b>														
- Overdrafts	-	-	-	-	-	27,747	-	-	-	-	-	-	-	27,747
- Personal loans	-	-	-	-	-	221,784	-	-	-	-	-	-	-	221,784
- Mortgages	-	-	-	-	-	62,774	-	-	-	-	-	-	-	62,774
<b>Corporate:</b>														
- Overdrafts	-	267,212	46,272	-	254,637	-	55,307	-	-	45,935	5,423	207,698	251,354	1,133,838
- Loans	74,965	282,938	298,370	96	1,654,065	740,175	1,139,270	-	77,752	163,289	54,589	114,684	417,033	5,017,226
Impairment provision	-	(16,409)	(114,154)	-	(28,545)	(65,395)	(50,523)	-	-	(23,925)	(17,853)	(96,061)	(148,899)	(561,764)
<b>Net loans and advances to customers</b>	<b>74,965</b>	<b>533,741</b>	<b>230,488</b>	<b>96</b>	<b>1,880,157</b>	<b>987,085</b>	<b>1,144,054</b>	<b>-</b>	<b>77,752</b>	<b>185,299</b>	<b>42,159</b>	<b>226,321</b>	<b>519,488</b>	<b>5,901,605</b>
<b>Financial investments:</b>														
- Debt instruments	-	-	-	-	-	-	-	5,624,420	-	-	-	-	-	5,624,420
Impairment provision	-	-	-	-	-	-	-	(57,554)	-	-	-	-	-	(57,554)
<b>Total</b>	<b>74,965</b>	<b>533,741</b>	<b>230,488</b>	<b>96</b>	<b>5,972,053</b>	<b>987,085</b>	<b>1,144,054</b>	<b>5,566,866</b>	<b>77,752</b>	<b>185,299</b>	<b>42,159</b>	<b>226,321</b>	<b>519,488</b>	<b>15,560,367</b>

Dec.31, 2022	<u>Agriculture</u>	<u>Building and Construction</u>	<u>Business Services</u>	<u>Electricity and Water</u>	<u>Finance and Insurance</u>	<u>Individual</u>	<u>Manufacturing</u>	<u>Government sector</u>	<u>Mining and Quarrying</u>	<u>Other Activities and</u>	<u>Real estate</u>	<u>Transport and Communication</u>	<u>Wholesale and retail trade</u>	<u>Total</u>
Cash and balances with Central Bank of Kenya	-	-	-	-	716,669	-	-	-	-	-	-	-	-	716,669
Due from banks	-	-	-	-	260,892	-	-	-	-	-	-	-	-	260,892
Less: Impairment provision	-	-	-	-	(785)	-	-	-	-	-	-	-	-	(785)
<b>Gross loans and advances to customers</b>														
<b>Individual:</b>														
- Overdrafts	-	-	-	-	-	48,126	-	-	-	-	-	-	-	48,126
- Personal loans	-	-	-	-	-	1,177,905	-	-	-	-	-	-	-	1,177,905
- Mortgages	-	-	-	-	-	49,478	-	-	-	-	-	-	-	49,478
<b>Corporate:</b>														
- Overdrafts	-	225,890	45,898	1	111,032	-	44,851	-	1	44,779	4,750	137,272	162,827	777,301
- Loans	85,637	339,578	162,793	1,020	721,506	-	760,564	-	110,524	563,662	81,402	207,770	594,596	3,629,052
Impairment provision	(3,737)	(52,342)	(21,155)	-	(3,228)	(58,655)	(74,222)	-	-	(116,728)	(35,158)	(25,140)	(279,468)	(669,833)
<b>Net loans and advances to customers</b>	<b>81,900</b>	<b>513,126</b>	<b>187,536</b>	<b>1,021</b>	<b>829,310</b>	<b>1,216,854</b>	<b>731,193</b>	<b>-</b>	<b>110,525</b>	<b>491,713</b>	<b>50,994</b>	<b>319,902</b>	<b>477,955</b>	<b>5,012,029</b>
<b>Financial investments:</b>														
- Debt instruments	-	-	-	-	-	-	-	5,107,161	-	-	-	-	-	5,107,161
	-	-	-	-	-	-	-	(39,451)	-	-	-	-	-	(39,451)
<b>Total</b>	<b>81,900</b>	<b>513,126</b>	<b>187,536</b>	<b>1,021</b>	<b>1,806,086</b>	<b>1,216,854</b>	<b>731,193</b>	<b>5,067,710</b>	<b>110,525</b>	<b>491,713</b>	<b>50,994</b>	<b>319,902</b>	<b>477,955</b>	<b>11,056,515</b>

**4.2. Market risk**

The objective of market risk management process is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile as a provider of financial products and services. Market risk is the risk that movement in market factors, including interest rates and foreign currency exchange rates, will reduce income or value of portfolio.

The Bank's Risk and Compliance Department is responsible for the development of detailed market risk management policies and for the day to day implementation of those policies.

**4.2.1. Market risk measurement techniques**

As part of the management of market risk, the Bank undertakes various strategies and enters into interest rate swaps to match the interest rate risk associated with the fixed-rate long-term debt instrument and loans to which the fair value option has been applied .

**4.2.2. Foreign exchange risk**

The Bank operates in Kenya and its assets and liabilities are carried in Kenya shilling. The Bank maintains trade with correspondent banks and takes deposits and lends in foreign currencies.

The Bank's currency position and exposure are managed within the exposure guideline of 20% of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management. The table below summarises the Bank's exposure to foreign exchange rate risk as at December.31, 2023. Included in the table are the Bank's financial instruments at carrying amounts categorised by currency.

Dec.31, 2023	Ksh Thousands					
	<u>Ksh</u>	<u>USD</u>	<u>EUR</u>	<u>GBP</u>	<u>Other</u>	<u>Total</u>
<b>Financial assets</b>						
Cash and balances with central bank	969,250	244,446	11,283	4,454	-	1,229,433
Gross due from banks	679	2,854,413	15,757	1,357	250	2,872,456
Gross loans and advances to customers	5,310,652	1,152,717	-	-	-	6,463,369
Other assets	203,565	10	189	970	-	204,734
<b>Financial investments</b>						
Gross financial investment securities	4,509,803	1,114,617	-	-	-	5,624,420
<b>Total financial assets</b>	<u>10,993,949</u>	<u>5,366,203</u>	<u>27,229</u>	<u>6,781</u>	<u>250</u>	<u>16,394,412</u>
<b>Financial liabilities</b>						
Due to banks	552,350	1,093,698	-	-	-	1,646,048
Due to customers	6,315,606	5,145,254	27,229	6,781	-	11,494,870
Other liabilities	121,754	-	-	-	-	121,754
Lease liabilities	89,298	-	-	-	-	89,298
<b>Total financial liabilities</b>	<u>7,079,008</u>	<u>6,238,952</u>	<u>27,229</u>	<u>6,781</u>	<u>-</u>	<u>13,351,970</u>
<b>Net on-balance sheet financial position</b>	<u>3,914,941</u>	<u>(872,749)</u>	<u>-</u>	<u>-</u>	<u>250</u>	<u>3,042,442</u>

<b>Dec.31, 2022</b>	<b><u>Ksh</u></b>	<b><u>USD</u></b>	<b><u>EUR</u></b>	<b><u>GBP</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
Total financial assets	10,169,419	1,519,399	17,908	20,185	223	11,727,134
Total financial liabilities	<u>6,526,838</u>	<u>1,518,725</u>	<u>16,958</u>	<u>19,365</u>	-	<u>8,081,886</u>
Net on-balance sheet financial position	<u>3,642,581</u>	<u>674</u>	<u>950</u>	<u>820</u>	<u>223</u>	<u>3,645,248</u>

**Foreign exchange risk – Appreciation/Depreciation of KSh against other currencies by 10%.**

The Foreign Exchange risks sensitivity analysis is based on the following assumptions;

- Foreign exchange exposures represent net currency positions of all currencies other than Kenya Shillings.
- The currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- The base currency in which the Bank’s business is transacted is Kenya Shillings.

The table below sets out the impact on earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2023.

Assuming no management actions, a series of such rises and falls would impact the earnings and capital as illustrated in the table below;

**Dec.31, 2023**

	Ksh Thousands		
	<b>Amount</b>	<b>Scenario 1 10% appreciation</b>	<b>Scenario 2 10% depreciation</b>
<b>Core Capital</b>	3,258,441	3,243,884	3,272,998
<b>Total Capital</b>	3,345,116	3,330,558	3,359,673
<b>Risk Weighted Assets (RWA)</b>	<u>12,820,653</u>	<u>12,820,653</u>	<u>12,820,653</u>
<b>Adjusted Core Capital to RWA</b>	<u>25.42%</u>	<u>25.30%</u>	<u>25.53%</u>
<b>Adjusted Total Capital to RWA*</b>	<u>26.09%</u>	<u>25.98%</u>	<u>26.21%</u>

\*all variables are constant except for movement of the foreign exchange rate under each scenario

**4.2.3. Interest rate risk**

The Bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the Bank's exposure to changes in interest rates and liquidity. Interest rates on advances to customers and other risk assets are either pegged to the Bank's base lending or the treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits.

The Risk and Compliance Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes.

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of repricing or contractual maturity dates.

	<b>Ksh Thousands</b>						
	<u>Up to1 Month</u>	<u>1-3 Months</u>	<u>3-12 Months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Non- Interest Bearing</u>	<u>Total</u>
<b>Dec.31, 2023</b>							
<b>Financial assets</b>							
Cash and balances with central bank	-	-	-	-	-	1,229,433	1,229,433
Gross due from banks	1,435,109	1,335,725	-	-	-	101,622	2,872,456
Gross loans and advances to customers	6,463,369	-	-	-	-	-	6,463,369
<b>Financial investments</b>	-	-	-	-	-	-	-
Gross financial investment securities	-	-	-	918,234	4,648,632	-	5,566,866
<b>Total financial assets</b>	<b>7,898,478</b>	<b>1,335,725</b>	<b>-</b>	<b>918,234</b>	<b>4,648,632</b>	<b>1,331,055</b>	<b>16,132,124</b>
<b>Financial liabilities</b>							
Due to banks	1,646,048	-	-	-	-	-	1,646,048
Due to customers	1,963,054	4,674,206	2,315,681	223,940	-	2,317,989	11,494,870
<b>Total financial liabilities</b>	<b>3,609,102</b>	<b>4,674,206</b>	<b>2,315,681</b>	<b>223,940</b>	<b>-</b>	<b>2,317,989</b>	<b>13,140,918</b>
<b>Total interest re-pricing gap</b>	<b>4,289,376</b>	<b>(3,338,481)</b>	<b>(2,315,681)</b>	<b>694,294</b>	<b>4,648,632</b>	<b>(986,934)</b>	<b>2,991,206</b>
<b>Dec.31, 2022</b>							
Total financial assets	5,699,319	200,197	-	246,800	4,820,911	759,907	11,727,134
Total financial liabilities	1,136,544	3,011,174	3,175,476	60,284	-	698,407	8,081,885
Total interest re-pricing gap	4,562,775	(2,810,977)	(3,175,476)	186,516	4,820,911	61,500	3,645,249

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank.

### Interest rate risks – Increase/Decrease of 10% in Net Interest Margin

The interest rate risks sensitivity analysis is based on the following assumptions.

- Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments.
- Changes in market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognized at their fair value.
- The interest rate changes will have a significant effect on interest sensitive assets and liabilities and hence simulation modelling is applied to net interest margins.
- The interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.
- The projections make other assumptions including that all positions run to maturity.

The table below sets out the impact on net interest income of an incremental 10% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2023.

**Dec.31, 2023**

Ksh Thousands

Amount	<u>Scenario 1</u>	<u>Scenario 2</u>
	Increase net interest margin by 10%	Decrease net interest margin by 10%
Profit before tax	(279,884)	(357,434)
Core Capital	3,258,441	3,180,891
Total Capital	3,345,116	3,267,566
Risk Weighted Assets (RWA)	12,820,65	12,820,653
Adjusted Core Capital to RWA	<u>25.42%</u>	<u>24.81%</u>
Adjusted Total Capital to RWA	<u>26.09%</u>	<u>25.49%</u>

\*all variables are constant except for movement of the interest rate under each scenario.

### 4.3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

#### Liquidity Risk Management Organization and Measurement Tools

Liquidity risk is governed by Asset and Liability Committee (ALCO) and Board Risk Committee (BRC) subject to provisions of Treasury Policy Guide (TPG).

Board Risk Committee (BRC): Provides oversight of risk management functions and assesses compliance to the set risk strategies and policies approved by the Board of Directors (BoD) through periodic reports submitted by the Risk Group. The committee makes recommendations to the BoD with regards to risk management strategies and policies (including those related to capital adequacy, liquidity management, various types of risks: credit, market, operation, compliance, reputation and any other risks the Bank may be exposed to).

Asset & Liability Committee (ALCO): Optimises the allocation of assets and liabilities, taking into consideration expectations of the potential impact of future interest rate fluctuations, liquidity constraints, and foreign exchange exposures. ALCO monitors the Bank's liquidity and market risks, economic developments, market fluctuations, and risk profile to ensure ongoing activities are compatible with the risk/ reward guidelines approved by the BoD.

#### 4.3.1. Liquidity risk management process

The Bank's liquidity management process is carried by the Treasury Department and monitored independently by the Risk Management Department, and includes projecting cash flows by major currency under various stress scenarios and considering the level of liquid assets necessary in relation thereto:

- Maintaining an active presence in global money markets to enable this to happen.
- Maintaining a diverse range of funding sources with back-up facilities
- Monitoring balance sheet liquidity and advances to core funding ratios against internal and CBK regulations.
- Managing the concentration and profile of debt maturities.

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

#### 4.3.2. Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers with the minimum ratio required by the regulator being 20%. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from Banks, debt securities issued, other borrowings and commitments maturing within the next month. 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:

	Dec.31, 2023	Dec.31, 2022
At year end	65.4%	73.2%
Average for the year	86.1%	72.2%
Maximum for the year	91.4%	82.1%
Minimum for the year	65.4%	66.3%

#### 4.3.3. Undiscounted cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities and the maturities assumption for non contractual products on the basis of their behaviour studies, at balance sheet date.

Dec.31, 2023	<u>Up to</u> <u>1 month</u>	<u>One to three</u> <u>months</u>	<u>Three months</u> <u>to one year</u>	<u>One year to</u> <u>five years</u>	<u>Over five</u> <u>years</u>	<u>Total</u>
<b>Financial liabilities</b>						
Due to banks	1,649,091	-	-	-	-	1,649,091
Due to customers	2,330,615	4,811,717	4,246,123	472,958	-	11,861,413
Lease liabilities	2,089	6,999	32,760	47,450	-	89,298
<b>Total liabilities (contractual and non contractual maturity dates)</b>	<b>3,981,795</b>	<b>4,818,716</b>	<b>4,278,883</b>	<b>520,408</b>	<b>-</b>	<b>13,599,802</b>
<b>Total financial assets (contractual and non contractual maturity dates)</b>	<b>7,898,478</b>	<b>1,335,725</b>	<b>-</b>	<b>918,234</b>	<b>5,979,687</b>	<b>16,132,124</b>
<b>Net liquidity gap</b>	<b>3,916,683</b>	<b>(3,482,991)</b>	<b>(4,278,883)</b>	<b>397,826</b>	<b>5,979,687</b>	<b>2,532,322</b>
Dec.31, 2022	<u>Up to</u> <u>1 month</u>	<u>One to three</u> <u>months</u>	<u>Three months</u> <u>to one year</u>	<u>One year to</u> <u>five years</u>	<u>Over five</u> <u>years</u>	<u>Total</u>
<b>Financial liabilities</b>						
Due to banks	132,939	-	-	-	-	132,939
Due to customers	1,704,582	3,059,552	3,333,239	72,586	-	8,169,959
Lease liabilities	3,978	11,941	32,940	97,954	280	147,093
<b>Total liabilities (contractual and non contractual maturity dates)</b>	<b>1,841,499</b>	<b>3,071,493</b>	<b>3,366,179</b>	<b>170,540</b>	<b>280</b>	<b>8,449,991</b>
<b>Total financial assets (contractual and non contractual maturity dates)</b>	<b>5,699,319</b>	<b>200,197</b>	<b>-</b>	<b>246,800</b>	<b>5,580,818</b>	<b>11,727,134</b>
<b>Net liquidity gap</b>	<b>3,857,820</b>	<b>(2,871,296)</b>	<b>(3,366,179)</b>	<b>76,260</b>	<b>5,580,538</b>	<b>3,277,143</b>

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, due from CBK and due from banks, treasury bills, other government notes, loans and advances to banks and customers.

In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, debt instrument and treasury bills and other governmental notes have been pledged to secure liabilities. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

**Off balance sheet items**

	Ksh Thousands			
Dec.31, 2023	Up to 1 year	1-5 years	Over 5 years	Total
Other contingent liabilities	858,550	-	-	858,550
Letters of credit, guarantees and other commitments	<u>232,994</u>	<u>10,574</u>	-	<u>243,568</u>
<b>Total</b>	<b><u>1,091,544</u></b>	<b><u>10,574</u></b>	<b>-</b>	<b><u>1,102,118</u></b>

**Off balance sheet items**

	Ksh Thousands			
Dec.31, 2022	Up to 1 year	1-5 years	Over 5 years	Total
Other contingent liabilities	702	-	-	702
Letters of credit, guarantees and other commitments	<u>1,029,724</u>	<u>8,223</u>	<u>2,351</u>	<u>1,040,298</u>
<b>Total</b>	<b><u>1,030,426</u></b>	<b><u>8,223</u></b>	<b><u>2,351</u></b>	<b><u>1,041,000</u></b>

**4.4. Fair value of financial assets and liabilities**
**4.4.1. Financial instruments not measured at fair value**
**Quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2023:**

instruments:

Level 1 - Quoted prices in active markets for the same instrument (i.e. without modification or repacking);

Level 2 - Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3 - Valuation techniques for which any significant input is not based on observable market data.

The table below summarizes the book value and fair value of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	Level	<u>Book value</u>		<u>Fair value</u>	
		Dec.31, 2023	Dec.31, 2022	Dec.31, 2023	Dec.31, 2022
<b>Financial assets</b>					
Due from banks		2,862,462	260,107	2,862,462	260,107
Net loans and advances to customers		5,901,605	5,681,862	5,901,605	5,681,862
- Individual		247,071	1,275,509	247,071	1,275,509
- Corporate		5,654,534	4,406,353	5,654,534	4,406,353
<b>Financial investments:</b>					
Amortized cost	1	2,510,204	1,720,638	2,334,730	1,606,324
<b>Total financial assets</b>		<b>11,274,271</b>	<b>7,662,607</b>	<b>11,098,797</b>	<b>7,548,293</b>
<b>Financial liabilities</b>					
Due to banks		1,646,048	132,810	1,646,048	132,810
Due to customers		11,494,870	7,949,075	11,494,870	7,949,075
<b>Total financial liabilities</b>		<b>13,140,918</b>	<b>8,081,885</b>	<b>13,140,918</b>	<b>8,081,885</b>

The fair value is considered in the previous note from the second and third level in accordance with the fair value standard

**Due from banks**

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of floating interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and similar maturity date.

**Fair values of financial instruments**

The following table provides the fair value measurement hierarchy of the assets and liabilities.

Dec.31, 2023	Date of Valuation	Total	Fair value measurement using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (level 2)	Valuation techniques (level 3)
<b>Measured at fair value:</b>					
<b>Financial assets</b>					
Financial Assets at Fair value through OCI	31-Dec-23	3,056,662	3,056,662	-	-
<b>Total</b>		<b>3,056,662</b>	<b>3,056,662</b>	<b>-</b>	<b>-</b>
<b>Dec.31, 2022</b>					
<b>Measured at fair value:</b>					
<b>Financial assets</b>					
Financial Assets at Fair value through OCI	31-Dec-22	3,347,073	3,347,073	-	-
<b>Total</b>		<b>3,347,073</b>	<b>3,347,073</b>	<b>-</b>	<b>-</b>

**Fair value of financial assets and liabilities**
**Loans and advances to banks**

The expected fair value of the loans and advances represents the discounted value of future cash flows expected to be collected. Cash flows are discounted using the current market rate of interest to determine fair value.

**Loans and advances to customers**

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

**Financial investments**

Investment securities include only interest-bearing assets, financial assets at amortized cost, and fair value through OCI.

Fair value for amortized cost assets is based on market prices or broker/dealer price quotations.

**Due to other banks and customers**

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar maturity date.

**4.5 Capital management**

The Bank's objectives when managing capital are:

- To safeguard the Bank's ability to continue as a going concern in order to provide acceptable returns to the shareholders and benefits for other stakeholders while maintaining an optimal capital structure.
- To comply with capital requirements set by the Central Bank of Kenya.
- To maintain a strong capital base to support continued business development.
- To create an acceptable buffer catering for unexpected losses that the Bank may incur in adverse market scenarios during the course of its business

**Regulatory capital**

**The Bank's objective when managing regulatory capital is broadly covered as follows:**

**Banking**

In line with our industry, the broader concept of capital and its adequacy is based on guidelines developed by the Basel Committee's Accords and implemented for supervisory purposes by the Central Bank of Kenya (CBK).

CBK largely segregate the total regulatory capital into two tiers;

- Tier 1 Capital (Core Capital), means permanent shareholders equity in the form of issued and fully paid-up shares plus all disclosed reserves, less goodwill or any intangible assets. It includes ordinary share capital, share premium and retained earnings.
- Tier 2 Capital (Supplementary Capital) includes among others, property revaluation reserves (up to a certain level subject to regulatory approval) and collective impairment allowances.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of Banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-statement of financial position exposures.

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

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

- A minimum level of regulatory capital of Shs 1 billion.
- A ratio of core capital to the risk-weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 10.50%.
- Core capital of not less than 8% of total deposit liabilities.
- Total capital of not less than 14.50% of risk-weighted assets plus risk-weighted off-statement of financial position items.

The Bank has complied with all externally imposed capital requirements throughout the year.

There have been no material changes in the Bank's management of capital during the year.

The Bank's regulatory capital position at 31 December was as follows as per Central Bank of Kenya:

1-The capital adequacy ratio	Dec.31, 2023 Ksh Thousands	Dec.31, 2022 Ksh Thousands
<b>Tier 1 capital</b>		
Ordinary share capital	4,081,633	4,081,633
Share premium	1,613,139	1,613,139
Accumulated deficit	(1,210,376)	(1,124,321)
Less: Deferred tax asset	(1,225,955)	(946,025)
<b>Total qualifying tier 1 capital</b>	<b>3,258,441</b>	<b>3,624,426</b>
<b>Tier 2 capital</b>		
Statutory Loan Loss Reserve	86,675	-
<b>Total qualifying tier 2 capital</b>	<b>86,675</b>	-
<b>Total capital 1+2</b>	<b>3,345,116</b>	<b>3,624,426</b>
<b>Risk weighted assets</b>		
On balance sheet items	7,703,794	5,043,950
Off balance sheet items	378,029	920,524
Market risk	3,245,360	2,866,878
Operational risk	1,493,470	1,042,325
<b>Total Risk-weighted assets</b>	<b>12,820,653</b>	<b>9,873,677</b>
<b>Core capital to Total Risk Weighted assets ratio</b>	<b>25.42%</b>	36.71%
<b>Total capital to Total Risk Weighted Assets ratio</b>	<b>26.09%</b>	36.71%

Total regulatory capital expressed as a percentage of total risk-weighted assets (Minimum requirement 14.50%)

Total tier 1 capital expressed as a percentage of risk-weighted assets (Minimum requirement 10.50%)

The risk weighted assets are as follows:

	Dec.31, 2023			Dec.31, 2022		
	Amount	Weight	Risk Weighted	Amount	Weight	Risk Weighted
	Ksh Thousands	%	Ksh Thousands	Ksh Thousands	%	Ksh Thousands
<b>On balance sheet assets</b>						
Cash (including foreign notes and coins)	119,369	0%	-	105,354	0%	-
Balances with Central Bank of Kenya	1,110,064	0%	-	611,315	0%	-
Kenya Government Treasury Bills	-	0%	-	-	0%	-
Kenya Government Treasury Bonds	5,566,866	0%	-	5,067,711	0%	-
Deposits and balances due from local institutions	1,355,696	20%	271,139	218,334	20%	43,667
Deposits and balances due from foreign institutions	1,506,766	20%	301,353	41,773	20%	8,355
Lending fully secured by cash	727,684	0%	-	1,854,119	0%	-
Loans and receivables Secured by residential property	39,548	35%	13,842	59,297	35%	20,754
Other Loans and advances (net of provisions)	5,134,374	100%	5,134,374	3,098,613	100%	3,098,613
Fixed Assets(net of depreciation)	535,868	100%	535,868	604,510	100%	604,510
Other assets	1,447,218	100%	1,447,218	1,245,996	100%	1,245,996
<b>Total</b>	<b>17,543,453</b>		<b>7,703,794</b>	<b>12,907,022</b>		<b>5,021,895</b>
<b>Local Financial Institutions (Notional amount of swap deals)</b>	<b>858,550</b>	<b>20%</b>	<b>171,710</b>	<b>-</b>	<b>20%</b>	<b>-</b>
<b>Off balance sheet assets</b>						
Transactions Secured by Cash	37,249	0%	-	120,476	0%	-
Others	206,319	100%	206,319	920,524	100%	920,524
<b>Total</b>	<b>243,568</b>		<b>206,319</b>	<b>1,041,000</b>		<b>920,524</b>

#### Capital allocation

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

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

**5. Segment analysis**

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

**5.1. Classification by business segment**

The Bank is divided into three main business segments:

- Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- deposits.

Transactions between the business segments are on normal commercial terms and conditions.

Major Customers - The Bank does not have major customers contributing to 10% or more of the Bank's income.

	Ksh Thousands			
	<u>Corporate banking</u>	<u>Investments</u>	<u>Retail banking</u>	<u>Total</u>
<b>Dec.31, 2023</b>				
Interest income	492,507	879,463	190,176	1,562,146
Interest expense	(321,066)	(397,597)	(55,606)	(774,269)
Net interest income	<u>171,441</u>	<u>481,866</u>	<u>134,570</u>	<u>787,877</u>
Net fees and commission income	33,854	55,753	13,072	102,679
Other income	-	21,224	-	21,224
Depreciation and amortization	(78,043)	(68,288)	(48,776)	(195,107)
Impairment	41,717	14,073	21,160	76,950
Operating expenses	(550,067)	(247,522)	(275,918)	(1,073,507)
Profit before tax	<u>(381,098)</u>	<u>257,106</u>	<u>(155,892)</u>	<u>(279,884)</u>
Tax expense	28,136	247,938	4,429	280,503
(Loss)/Profit for the year	<u>(352,962)</u>	<u>505,044</u>	<u>(151,463)</u>	<u>619</u>

	<u>Corporate banking</u>	<u>Investments</u>	<u>Retail banking</u>	<u>Total</u>
<b>Dec.31, 2022</b>				
Interest income	1,098,422	173,363	68,882	1,340,667
Interest expense	(482,366)	(68,264)	(16,627)	(567,257)
Net interest income	<u>616,056</u>	<u>105,099</u>	<u>52,255</u>	<u>773,410</u>
Net fees and commission income	47,829	20,293	6,574	74,696
Other income	8,191	-	-	8,191
Depreciation and amortization	(148,993)	(10,670)	(4,707)	(164,370)
Impairment	(146,821)	(67,862)	(211,723)	(426,406)
Operating expenses	(701,646)	(49,996)	(29,029)	(780,671)
Profit before tax	<u>(325,384)</u>	<u>(3,136)</u>	<u>(186,630)</u>	<u>(515,150)</u>
Tax expense	962,740	(23,991)	(755)	937,994
(Loss)/Profit for the year	<u>637,356</u>	<u>(27,127)</u>	<u>(187,385)</u>	<u>422,844</u>

	Ksh Thousands			
	<u>Corporate banking</u>	<u>Investments</u>	<u>Retail banking</u>	<u>Total</u>
<b>Dec.31, 2023</b>				
Cash and cash equivalents	-	9,539,393	119,369	9,658,762
Loans and advances	5,127,101	-	774,504	5,901,605
Other Assets	-	1,607,012	376,074	1,983,086
Funding Centre	<u>(1,018,612)</u>	<u>(5,643,604)</u>	<u>6,662,216</u>	<u>-</u>
Total assets	<u>4,108,489</u>	<u>5,502,801</u>	<u>7,932,163</u>	<u>17,543,453</u>
Customer deposits	4,108,489	-	7,386,381	11,494,870
Dues to banks	-	1,646,048	-	1,646,048
Other liabilities	-	(334,730)	545,782	211,052
Equity	-	4,191,483	-	4,191,483
Total liabilities and shareholders' funds	<u>4,108,489</u>	<u>5,502,801</u>	<u>7,932,163</u>	<u>17,543,453</u>

	<u>Corporate banking</u>	<u>Investments</u>	<u>Retail banking</u>	<u>Total</u>
<b>Dec.31, 2022</b>				
Cash and cash equivalents	-	4,690,238	105,354	4,795,592
Loans and advances	3,174,850	-	1,837,179	5,012,029
Other Assets	-	191,582	2,907,819	3,099,401
Total assets	<u>3,174,850</u>	<u>4,881,820</u>	<u>4,850,352</u>	<u>12,907,022</u>
Customer deposits	3,004,937	-	4,944,138	7,949,075
Dues to banks	-	132,810	-	132,810
Other liabilities	-	31,819	369,897	401,716
Equity	-	4,423,421	-	4,423,421
Funding Centre	169,913	293,770	(463,683)	-
Total liabilities and shareholders' funds	<u>3,174,850</u>	<u>4,881,820</u>	<u>4,850,352</u>	<u>12,907,022</u>

**5.2. Classification by geographical segment**  
**Dec.31, 2023**

	<u>Nairobi</u>	<u>Coast</u>	<u>Rift valley</u>	<u>Total</u>
Interest income	1,315,023	158,803	88,320	1,562,146
Interest expense	(625,060)	(108,900)	(40,309)	(774,269)
Net interest income	<u>689,963</u>	<u>49,903</u>	<u>48,011</u>	<u>787,877</u>
Net fees and commission income	95,574	6,057	1,048	102,679
Other income	21,224	-	-	21,224
Depreciation and amortization	(181,957)	(8,485)	(4,665)	(195,107)
Impairment	(48,523)	24,733	100,740	76,950
Operating expenses	<u>(917,103)</u>	<u>(114,371)</u>	<u>(42,033)</u>	<u>(1,073,507)</u>
Profit before tax	<u>(340,822)</u>	<u>(42,163)</u>	<u>103,101</u>	<u>(279,884)</u>
Tax expense	280,503	-	-	280,503
(Loss)/Profit for the year	<u>(60,319)</u>	<u>(42,163)</u>	<u>103,101</u>	<u>619</u>

	<u>Nairobi</u>	<u>Coast</u>	<u>Rift valley</u>	<u>Total</u>
Dec.31, 2022				
Interest income	1,098,422	173,363	68,882	1,340,667
Interest expense	(482,366)	(68,264)	(16,627)	(567,257)
Net interest income	<u>616,056</u>	<u>105,099</u>	<u>52,255</u>	<u>773,410</u>
Net fees and commission income	47,829	20,293	6,574	74,696
Other income	8,191	-	-	8,191
Depreciation and amortization	(148,993)	(10,670)	(4,707)	(164,370)
Impairment	(146,821)	(67,862)	(211,723)	(426,406)
Operating expenses	<u>(701,646)</u>	<u>(49,996)</u>	<u>(29,029)</u>	<u>(780,671)</u>
Profit before tax	<u>(325,384)</u>	<u>(3,136)</u>	<u>(186,630)</u>	<u>(515,150)</u>
Tax expense	962,740	(1,936)	(755)	960,049
(Loss)/Profit for the year	<u>637,356</u>	<u>(5,072)</u>	<u>(187,385)</u>	<u>444,899</u>

**Dec.31, 2023**

	<u>Nairobi</u>	<u>Coast</u>	<u>Rift valley</u>	<u>Total</u>
Cash and cash equivalents	9,640,991	19,746	14,554	9,675,291
Loans and advances	4,470,891	1,002,422	428,292	5,901,605
Other Assets	1,751,328	206,626	8,603	1,966,557
Net inter branch	<u>(735,443)</u>	<u>631,689</u>	<u>103,754</u>	<u>-</u>
	<u>15,127,767</u>	<u>1,860,483</u>	<u>555,203</u>	<u>17,543,453</u>
Customer deposits	8,893,745	1,986,859	614,266	11,494,870
Dues to banks	1,646,048	-	-	1,646,048
Other liabilities	153,761	14,146	43,145	211,052
Equity	<u>4,434,213</u>	<u>(140,522)</u>	<u>(102,208)</u>	<u>4,191,483</u>
Total liabilities and shareholders' funds	<u>15,127,767</u>	<u>1,860,483</u>	<u>555,203</u>	<u>17,543,453</u>

	<u>Nairobi</u>	<u>Coast</u>	<u>Rift valley</u>	<u>Total</u>
Dec.31, 2022				
Cash and cash equivalents	6,023,399	9,356	11,732	6,044,487
Loans and advances	3,610,389	967,007	434,633	5,012,029
Other Assets	1,770,492	68,219	11,795	1,850,506
Net inter branch	<u>466,776</u>	<u>(168,751)</u>	<u>(298,025)</u>	<u>-</u>
Total assets	<u>11,871,056</u>	<u>875,831</u>	<u>160,135</u>	<u>12,907,022</u>
Customer deposits	6,553,969	1,029,097	366,009	7,949,075
Dues to banks	132,810	-	-	132,810
Other liabilities	358,267	22,063	21,387	401,717
Equity	<u>4,826,010</u>	<u>(175,329)</u>	<u>(227,261)</u>	<u>4,423,420</u>
Total liabilities and shareholders' funds	<u>11,871,056</u>	<u>875,831</u>	<u>160,135</u>	<u>12,907,022</u>

**6 . Net interest income**

	Dec.31, 2023 Ksh Thousands	Dec.31, 2022 Ksh Thousands
<b>Interest and similar income</b>		
- Banks	235,588	16,284
- Clients	682,683	706,142
<b>Total</b>	<u>918,271</u>	<u>722,426</u>
Government securities – treasury bills	-	-
Government securities – treasury bonds	643,876	618,241
<b>Total</b>	<u>643,876</u>	<u>618,241</u>
<b>Total interest income</b>	<u>1,562,147</u>	<u>1,340,667</u>
<b>Interest and similar expense</b>		
- Banks	(21,783)	(15,413)
- Clients	(741,091)	(536,641)
Lease liability interest expense	(11,395)	(15,203)
<b>Total</b>	<u>(774,269)</u>	<u>(567,257)</u>
<b>Net interest income</b>	<u>787,878</u>	<u>773,410</u>

**7 . Net fees and commission income**

	Dec.31, 2023 Ksh Thousands	Dec.31, 2022 Ksh Thousands
<b>Fees and commission income</b>		
Fees and commissions related to trade finance	8,407	47,059
Other fees	12,709	14,033
<b>Total</b>	<u>21,116</u>	<u>61,092</u>

**8 . Net trading income**

	Dec.31, 2023 Ksh Thousands	Dec.31, 2022 Ksh Thousands
Gain from foreign exchange	81,564	13,604
Gain from bond trading	14,954	7,240
<b>Total</b>	<u>96,518</u>	<u>20,844</u>

<b>9 . Administrative expenses</b>	<b>Dec.31, 2023</b>	Dec.31, 2022
	<b>Ksh Thousands</b>	Ksh Thousands
Employee benefits*	729,175	528,528
Depreciation - property and equipment (Note 21)	99,582	98,648
Depreciation - right of use assets (Note 31)	35,235	34,333
Amortization - intangible assets (Note 22)	60,291	31,390
Audit fees	6,029	5,197
Directors' emoluments - fees	6,668	5,864
Other operating expenses	331,635	241,081
<b>Total</b>	<b>1,268,615</b>	<b>945,041</b>
<b>* Employee benefits</b>	<b>Dec.31, 2023</b>	Dec.31, 2022
	<b>Ksh Thousands</b>	Ksh Thousands
<b>Staff costs</b>		
Salaries and allowances	647,821	477,267
<b>Retirement benefits costs:</b>		
Defined contribution benefits scheme	15,443	13,838
National social security fund	1,135	330
Housing levy	4,596	-
Staff insurance	34,828	30,362
Other staff expenses	25,352	6,731
<b>Total</b>	<b>729,175</b>	<b>528,528</b>
Average number of staff	134	115
<b>10 . Other operating income</b>	<b>Dec.31, 2023</b>	Dec.31, 2022
	<b>Ksh Thousands</b>	Ksh Thousands
Profits from selling property and equipment	-	900
Other income	6,269	51
<b>Total</b>	<b>6,269</b>	<b>951</b>
<b>11 . Impairment charge for credit losses</b>	<b>Dec.31, 2023</b>	Dec.31, 2022
	<b>Ksh Thousands</b>	Ksh Thousands
Write back/(charge) on loans	104,693	(391,684)
Write offs during the period	-	(137)
Charge on government securities	(18,103)	(39,451)
Charge/(write back) on due from banks	(9,209)	1,300
Charge/(write back) on off balance sheet items	(431)	3,566
<b>Total</b>	<b>76,950</b>	<b>(426,406)</b>
<b>12 . Current income tax</b>	<b>Dec.31, 2023</b>	Dec.31, 2022
	<b>Ksh Thousands</b>	Ksh Thousands
<b>Income tax expense</b>		
Charge to profit or loss for the year	573	(8,031)
<b>Deferred income tax</b>		
Deferred income tax credit	279,930	946,025
Total income tax credit for the year	280,503	937,994
<b>13 . Profit per share</b>	<b>Dec.31, 2023</b>	Dec.31, 2022
	<b>Ksh Thousands</b>	Ksh Thousands
Net profit for the year, available for distribution	619	422,844
<b>Profit attributable to owners of the Bank</b>	<b>619</b>	<b>422,844</b>
Weighted average number of shares	4,081,633	4,081,633
<b>Basic profit per share</b>	<b>0.15</b>	<b>103.60</b>

**14. Cash and balances with Central Bank of Kenya**

	<b>Dec.31, 2023</b>	Dec.31, 2022
	Ksh Thousands	Ksh Thousands
Cash	119,369	105,354
<b>Cash reserve ratio*</b>	572,016	392,135
Balances with the CBK - available for use by the Bank	538,048	219,180
<b>Total</b>	<u>1,229,433</u>	<u>716,669</u>
Fixed interest bearing balances	-	-
Non-interest bearing balances	1,229,433	716,669
<b>Total</b>	<u>1,229,433</u>	<u>716,669</u>

\* The cash reserve ratio requirement is non-interest bearing and is based on the customer deposits held by the Bank as per the Central Bank of Kenya (CBK) requirements. At December 31, 2023 the cash reserve ratio requirement for Kenya was 5.25% of all customer deposits (December.31, 2022 - 5.25%). These funds are not available for the day to day operations of the Bank.

**15. Due from banks**

	<b>Dec.31, 2023</b>	Dec.31, 2022
	Ksh Thousands	Ksh Thousands
Current accounts	111,616	44,023
Deposits	2,760,840	216,869
Expected credit losses	(9,994)	(785)
<b>Total</b>	<u>2,862,462</u>	<u>260,107</u>
Local banks	1,355,696	218,334
Foreign banks	1,506,766	41,773
<b>Total</b>	<u>2,862,462</u>	<u>260,107</u>
Non-interest bearing balances	111,616	44,023
Fixed interest bearing balances	2,750,846	216,084
<b>Total</b>	<u>2,862,462</u>	<u>260,107</u>
Current balances	2,862,462	260,107

**Due from banks**

	<b>Stage 1</b>	Stage 1
Gross due from banks	2,872,456	260,892
Expected credit losses	(9,994)	(785)
Net due from banks	<u>2,862,462</u>	<u>260,107</u>

The weighted average effective interest rate at December.31, 2023 for deposits due from Banking institutions was (LCY - 8.64%, FCY – 6.12%) (Dec.31, 2022 LCY - 4.56% , FCY – 2.53%).

**16 . Loans and advances to customers, net**

	Dec.31, 2023 Ksh Thousands	Dec.31, 2022 Ksh Thousands
<b>Individual</b>		
- Overdraft	27,747	48,126
- Personal loans	221,784	1,177,905
- Mortgages	62,774	49,478
<b>Total 1</b>	<u>312,305</u>	<u>1,275,509</u>
<b>Corporate</b>		
- Overdraft	1,133,838	777,301
- Loans	5,017,226	3,629,052
<b>Total 2</b>	<u>6,151,064</u>	<u>4,406,353</u>
<b>Total loans and advances to customers (1+2)</b>	<u>6,463,369</u>	<u>5,681,862</u>
<b>Less:</b>		
Impairment provision	(561,764)	(669,833)
<b>Net loans and advances to customers</b>	<u>5,901,605</u>	<u>5,012,029</u>

The weighted average effective interest rate on LCY loans and advances to customers as at December.31, 2023 was 15.63% (2022 – 13.71%). The weighted average effective interest rate on FCY loans as at December.31, 2023 was 9.14% (2022 – 8.62%).

**Analysis of gross advances by maturity:**

	Dec.31, 2023 Ksh Thousands	Dec.31, 2022 Ksh Thousands
Maturing within one month	567,948	1,031,679
Maturing within 90 days	418,015	1,050,423
Maturing after 90 days and within one year	2,133,054	1,216,246
Maturing after one to five years	2,450,507	2,311,067
Maturing after 5 years	893,845	72,447
<b>Total</b>	<u>6,463,369</u>	<u>5,681,862</u>

Analysis of the expected credit losses on loans and advances to customers by type during the year was as follows:

	Dec.31, 2023			Ksh Thousands
<b>Individual Loans:</b>	<u>Overdrafts</u>	<u>Personal loans</u>	<u>Mortgages</u>	<u>Total</u>
Beginning balance	24,939	28,927	4,789	58,655
Impairment charge during the year	(12,516)	17,530	1,565	6,579
<b>Ending balance</b>	<b>12,423</b>	<b>46,457</b>	<b>6,354</b>	<b>65,234</b>

	Dec.31, 2023		
<b>Corporate and Business Banking loans:</b>	<u>Overdraft</u>	<u>Loans</u>	<u>Total</u>
Beginning balance	88,960	522,218	611,178
Write back during the year	18,551	(133,199)	(114,648)
<b>Ending balance</b>	<b>107,511</b>	<b>389,019</b>	<b>496,530</b>

	Dec.31, 2022			Ksh Thousands
<b>Individual Loans:</b>	<u>Overdrafts</u>	<u>Personal loans</u>	<u>Mortgages</u>	<u>Total</u>
Beginning balance	24,791	70,570	1,833	97,194
Impairment charge/(write back) during the year	148	(41,643)	2,956	(38,539)
<b>Ending balance</b>	<b>24,939</b>	<b>28,927</b>	<b>4,789</b>	<b>58,655</b>

	Dec.31, 2022		
<b>Corporate and Business Banking loans:</b>	<u>Overdraft</u>	<u>Loans</u>	<u>Total</u>
Beginning balance	30,790	150,164	180,954
Impairment charge during the year	58,170	372,054	430,224
<b>Ending balance</b>	<b>88,960</b>	<b>522,218</b>	<b>611,178</b>

**17 . Financial investments securities**

Ksh Thousands

Dec.31, 2023

	<u>Fair value through OCI</u>	<u>Amortized cost</u>	<u>Total</u>
<b>Investments listed in the market</b>			
Treasury bonds	3,056,662	2,510,204	5,566,866
<b>Total</b>	<u>3,056,662</u>	<u>2,510,204</u>	<u>5,566,866</u>

Ksh Thousands

Dec.31, 2022

	<u>Financial Assets at Fair value through OCI</u>	<u>Amortized cost</u>	<u>Total</u>
<b>Investments listed in the market</b>			
Treasury bonds	3,347,073	1,720,638	5,067,711
<b>Total</b>	<u>3,347,073</u>	<u>1,720,638</u>	<u>5,067,711</u>

Dec.31, 2023

	<u>Fair value through OCI</u>	<u>Amortized cost</u>	<u>Total</u>
Beginning balance	3,347,073	1,760,089	5,107,162
Additions during the year	94,400	868,575	962,975
Disposals/ maturities during the year	(185,100)	-	(185,100)
Movement in premium /discount during the year	32,533	(65,445)	(32,912)
Movement in interest receivable during the year	313	4,539	4,852
Movement in fair value loss during the year	(232,557)	-	(232,557)
<b>Total</b>	<u>3,056,662</u>	<u>2,567,758</u>	<u>5,624,420</u>
Expected credit losses	-	(57,554)	(57,554)
<b>Ending Balance as of December 31, 2022</b>	<u>3,056,662</u>	<u>2,510,204</u>	<u>5,566,866</u>

Dec.31, 2022

	<u>Fair value through OCI</u>	<u>Amortized cost</u>	<u>Total</u>
Beginning balance	3,610,465	1,597,756	5,208,221
Additions during the year	1,058,500	185,100	1,243,600
Disposals/maturities during the year	(1,111,700)	-	(1,111,700)
Movement in premium /discount during the year	(48,595)	(24,876)	(73,471)
Movement in interest receivable during the year	(9,236)	2,109	(7,127)
Movement in fair value loss during the year	(152,361)	-	(152,361)
<b>Total</b>	<u>3,347,073</u>	<u>1,760,089</u>	<u>5,107,162</u>
Expected credit losses	-	(39,451)	(39,451)
<b>Ending Balance as of Dec.31, 2022</b>	<u>3,347,073</u>	<u>1,720,638</u>	<u>5,067,711</u>

**18 Disclosure and measurement of financial assets and financial liabilities:**

The following table shows the financial assets and the net financial commitments according to the business model classification:

Ksh Thousands

Dec.31, 2023	<u>Amortized cost</u>	<u>Debt financial Assets at Fair value through OCI</u>	<u>Equity financial Assets at Fair value through OCI</u>	<u>Financial Assets at Fair value through P&amp;L</u>	<u>Total book value</u>
Cash and balances with central bank	1,229,433	-	-	-	1,229,433
Due from banks	2,862,462	-	-	-	2,862,462
Financial Assets at Amortized cost	2,510,204	-	-	-	2,510,204
Loans and advances to customers, net	5,901,605	-	-	-	5,901,605
Derivative financial instruments	16,530	-	-	-	16,530
Financial assets at fair value through OCI	-	3,056,662	-	-	3,056,662
<b>Total 1</b>	<b>12,520,234</b>	<b>3,056,662</b>	<b>-</b>	<b>-</b>	<b>15,576,896</b>
Due to banks	1,646,048	-	-	-	1,646,048
Due to customers	11,494,870	-	-	-	11,494,870
<b>Total 2</b>	<b>13,140,918</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,140,918</b>

**19 Other assets**

	Dec.31, 2023 Ksh Thousands	Dec.31, 2022 Ksh Thousands
Prepaid expenses	46,154	33,669
Prepaid staff benefit	8,212	18,414
Accounts receivables and other assets	150,368	247,888
<b>Total</b>	<b>204,734</b>	<b>299,971</b>

**20.0 . Derivative financial instruments**
**20.1 . Derivatives**

The Bank uses the following financial derivatives for non hedging purposes.

Forward contracts represent commitments to buy foreign and local currencies including unexecuted spot transactions, future contracts for foreign currencies and/or interest rates represent contractual commitments to receive or pay net on the basis of changes foreign exchange rates or interest rates, and/or to buy/sell foreign currencies or financial instruments in a future date with a fixed contractual price under active financial market.

Credit risk is considered low, and future interest rate contract represents future exchange rate contracts negotiated for case by case, These contracts require financial settlements of any differences in contractual interest rates and prevailing market interest rates on future interest rates on future dates based on contractual amount (nominal value) pre agreed upon.

Foreign exchange and/or interest rate swap represents commitments to exchange cash flows, resulting from these contracts are exchange of currencies or interest (fixed rate versus variable rate for example) or both (meaning foreign exchange and interest rate contracts). Contractual amounts are not exchanged except for some foreign exchange contracts.

Credit risk is represented in the expected cost of foreign exchange contracts that takes place if other parties default to fulfill their liabilities. This risk is monitored continuously through comparisons of fair value and contractual amount, and in order to control the outstanding credit risk, the Bank evaluates other parties using the same methods as in borrowing activities.

Options contracts in foreign currencies and/or interest rates represent contractual agreements for the buyer (issuer) to the seller (holders) a right not an obligation whether to buy (buy option) or sell (sell option) at a certain day or within certain year for a predetermined amount in foreign currency or interest rate. Options contracts are either traded in the market or negotiated between The Bank and one of its clients (Off balance sheet). The Bank is exposed to credit risk for purchased options contracts only and in the line of its book cost which represent its fair value.

The contractual value for some derivatives options is considered a base to analyze the realized financial instruments on the balance sheet, but it doesn't provide an indicator for the projected cash flows of the fair value for current instruments, and those amounts don't reflect credit risk or interest rate risk.

Derivatives in the Bank's benefit that are classified as (assets) are conversely considered (liabilities) as a result of the changes in foreign exchange prices or interest rates related to these derivatives. Contractual / expected total amounts of financial derivatives can fluctuate from time to time as well as the range through which the financial derivatives can be in benefit for the Bank or conversely against its benefit and the total fair value of the financial derivatives in assets and liabilities. Hereunder are the fair values of the booked financial derivatives:

**20.1.1 . For trading derivatives**

	Ksh Thousands			Ksh Thousands		
	<u>Dec.31, 2023</u>			Dec.31, 2022		
<b>Foreign currencies derivatives</b>	<u>Notional amount</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Notional amount</u>	<u>Assets</u>	<u>Liabilities</u>
- Forward foreign exchange contracts	-	-	-	-	-	-
- Currency swap	858,550	16,530	-	-	-	-
- Options	-	-	-	-	-	-
<b>Total (1)</b>	<u>858,550</u>	<u>16,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**21 . Property and equipment**

	<b>Dec.31, 2023</b>						<b>Total</b>
	<b>Computer equipment</b>	<b>Motor vehicles</b>	<b>Leasehold Improvements</b>	<b>Office equipment</b>	<b>Furniture, and fittings</b>	<b>Capital work in progress</b>	<b>Ksh Thousands</b>
Beginning gross assets (1)	118,902	39,200	183,183	366,953	26,707	48,336	783,281
Additions during the year	11,570	-	21,042	23,639	4,670	4,703	65,624
Disposals during the year	-	-	-	-	-	-	-
Transfer from work in progress	-	-	27,283	14,477	4,886	(46,646)	-
Ending gross assets (2)	<u>130,472</u>	<u>39,200</u>	<u>231,508</u>	<u>405,069</u>	<u>36,263</u>	<u>6,393</u>	<u>848,905</u>
Accumulated depreciation at beginning of the year (3)	79,043	14,296	111,307	251,881	22,656	-	479,183
Current year depreciation	12,885	7,200	26,786	49,420	3,291	-	99,582
Disposals during the year	-	-	-	-	-	-	-
Accumulated depreciation at end of the year (4)	<u>91,928</u>	<u>21,496</u>	<u>138,093</u>	<u>301,301</u>	<u>25,947</u>	<u>-</u>	<u>578,765</u>
Ending net assets (2-4)	<u>38,544</u>	<u>17,704</u>	<u>93,415</u>	<u>103,768</u>	<u>10,316</u>	<u>6,393</u>	<u>270,140</u>
Beginning net assets (1-3)	<u>39,859</u>	<u>24,904</u>	<u>71,876</u>	<u>115,071</u>	<u>4,051</u>	<u>48,336</u>	<u>304,097</u>
Depreciation rates	33.33%	20.00%	12.50%	20.00%	20.00%		

\* Capital work in progress relates to IT projects and Office fit out not yet complete as at the reporting date.

	<b>Dec.31, 2022</b>						<b>Total</b>
	<b>Computer equipment</b>	<b>Motor vehicles</b>	<b>Leasehold Improvements</b>	<b>Office equipment</b>	<b>Furniture, and fittings</b>	<b>Capital work in progress</b>	<b>Ksh Thousands</b>
Beginning gross assets (1)	77,053	33,900	183,183	277,163	26,408	47,838	645,545
Additions during the year	42,305	9,000	-	69,778	299	20,510	141,892
Disposals during the year	(456)	(3,700)	-	-	-	-	(4,156)
Transfer from work in progress	-	-	-	20,012	-	(20,012)	-
Ending gross assets (2)	<u>118,902</u>	<u>39,200</u>	<u>183,183</u>	<u>366,953</u>	<u>26,707</u>	<u>48,336</u>	<u>783,281</u>
Accumulated depreciation at beginning of the year (3)	65,593	11,913	88,409	199,879	18,731	-	384,525
Current year depreciation	13,740	6,083	22,898	52,002	3,925	-	98,648
Disposals during the year*	(290)	(3,700)	-	-	-	-	(3,990)
Accumulated depreciation at end of the year (4)	<u>79,043</u>	<u>14,296</u>	<u>111,307</u>	<u>251,881</u>	<u>22,656</u>	<u>-</u>	<u>479,183</u>
Ending net assets (2-4)	<u>39,859</u>	<u>24,904</u>	<u>71,876</u>	<u>115,072</u>	<u>4,051</u>	<u>48,336</u>	<u>304,098</u>
Beginning Net Assets	<u>11,460</u>	<u>21,987</u>	<u>94,774</u>	<u>77,284</u>	<u>7,677</u>	<u>47,838</u>	<u>261,020</u>
Depreciation rates	33.33%	20.00%	12.50%	20.00%	20.00%		

22 Intangible assets	Dec. 31, 2023	Dec.31, 2022
	Ksh Thousands	Ksh Thousands
<b>Computer software</b>		
<b>Cost</b>		
At 1 January	337,630	280,810
Additions during the year	48,851	47,643
Transfer from Work in progress	64,093	9,177
<b>Total 1</b>	<b>450,574</b>	<b>337,630</b>
<b>Work In Progress</b>		
At 1 January	68,694	26,078
Additions during the year	9,029	51,793
Transfer from Work in progress	(64,093)	(9,177)
<b>Total 2</b>	<b>13,630</b>	<b>68,694</b>
<b>Amortisation</b>		
At 1 January	211,244	179,854
Current year amortization	60,291	31,390
<b>Total 3</b>	<b>271,535</b>	<b>211,244</b>
<b>Net book value at year end (1+2-3)</b>	<b>192,669</b>	<b>195,080</b>

23 Due to banks	Dec.31, 2023	Dec.31, 2022
	Ksh Thousands	Ksh Thousands
Current accounts	-	-
Deposits	1,646,048	132,810
<b>Total</b>	<b>1,646,048</b>	<b>132,810</b>
Local banks	552,350	-
Foreign banks	1,093,698	132,810
<b>Total</b>	<b>1,646,048</b>	<b>132,810</b>
Non-interest bearing balances	-	-
Floating interest bearing balances	-	-
Fixed interest bearing balances	1,646,048	132,810
<b>Total</b>	<b>1,646,048</b>	<b>132,810</b>
Current balances	1,646,048	132,810
Non-current balances	-	-
<b>Total</b>	<b>1,646,048</b>	<b>132,810</b>

The weighted average effective interest rate of LCY balances due to banks at December.31, 2023 was 6.93% (2022 - 1.24%) and the rate for FCY 5.21% (2022 – 2.09%).

24 Due to customers	Dec.31, 2023	Dec.31, 2022
	Ksh Thousands	Ksh Thousands
Demand deposits	725,055	859,106
Time deposits	9,227,963	6,522,164
Saving deposits	1,352,748	477,223
Other deposits ( Call )	189,104	90,582
<b>Total</b>	<b>11,494,870</b>	<b>7,949,075</b>
Corporate deposits	5,476,003	3,904,838
Individual deposits	6,018,867	4,044,237
<b>Total</b>	<b>11,494,870</b>	<b>7,949,075</b>
Non-interest bearing balances	725,055	859,106
Floating interest bearing balances	1,352,748	477,223
Fixed interest bearing balances	9,417,067	6,612,746
<b>Total</b>	<b>11,494,870</b>	<b>7,949,075</b>
Current balances	11,494,870	7,949,075
<b>Total</b>	<b>11,494,870</b>	<b>7,949,075</b>

The weighted average effective interest rate on LCY customer deposits at December.31, 2023 was 9.00% (2022 - 7.37%) and the rate for FCY was 3.71% (2022 - 2.92%).

25 Other liabilities	Dec.31, 2023	Dec.31, 2022
	Ksh Thousands	Ksh Thousands
Accrued expenses	31,031	36,828
Accounts payable	18,650	176,151
Others	72,073	65,110
<b>Total</b>	<b>121,754</b>	<b>278,089</b>

**26 . Share capital**

	Dec.31, 2023	Dec.31, 2022
	Ksh Thousands	Ksh Thousands
<b>Authorised:</b>		
4,081,633 ordinary shares of Sh 1,000 each (2022:4,081,633)	4,081,633	4,081,633
<b>Issued and fully paid:</b>		
4,081,633 ordinary shares of Sh 1,000 each (2022:4,081,633)	4,081,633	4,081,633

**27 . Share premium**

	Dec.31, 2023	Dec.31, 2022
	Ksh Thousands	Ksh Thousands
Share Premium	1,613,139	1,613,139

**28 . Deferred income tax assets/(liabilities)**

Deferred income tax is calculated on all temporary differences under the liability method using the enacted rate of 30%. (2022:30%)

Deferred tax assets and liabilities are attributable to the following:

	Assets (Liabilities)	Assets (Liabilities)
	Dec.31, 2023	Dec.31, 2022
	Ksh Thousands	Ksh Thousands
Fixed assets	29,304	14,373
Tax losses carried forward	946,453	686,791
Other deductible differences	193,260	222,807
Deferred tax on fair value gain on government securities through OCI	56,938	22,054
Deferred tax asset not recognised	-	-
<b>Deferred tax asset</b>	<b>1,225,955</b>	<b>946,025</b>

The deferred tax asset has been recognised in the financial statements on the basis that since the Bank has generated profit in the past and will be able to generate sufficient taxable profits in the subsequent year.

**Movements in temporary differences during the year**

Ksh Thousands	At start of year	Movement in the year	Other comprehensive income	At end of year
<b>Dec.31, 2023</b>				
<b>Property and equipment</b>	(14,373)	(14,931)	-	(29,304)
<b>Unrealised exchange gains</b>	2,695	14,255	-	16,950
<b>ROU (negative)</b>	31,600	(9,682)	-	21,918
<b>Deferred tax on fair value gain on government securities through OCI</b>	(22,054)	(34,884)	-	(56,938)
<b>Provisions</b>	(220,014)	14,675	-	(205,339)
<b>Tax losses</b>	(686,791)	(259,662)	-	(946,453)
<b>Lease Liability</b>	(37,088)	10,299	-	(26,789)
<b>Net asset</b>	<b>(946,025)</b>	<b>(279,930)</b>	<b>-</b>	<b>(1,225,955)</b>
<b>Deferred tax asset recognised</b>	<b>(946,025)</b>	<b>(279,930)</b>	<b>-</b>	<b>(1,225,955)</b>
<b>Dec.31, 2022</b>				
Property and equipment	(6,500)	(14,373)	-	(14,373)
Unrealised exchange gains	11,200	2,695	-	2,695
ROU (negative)	33,053	31,600	-	31,600
Deferred tax on fair value gain on government securities through OCI	1,599	(22,054)	-	(22,054)
Provisions	(92,318)	(220,014)	-	(220,014)
Tax losses	(495,034)	(686,791)	-	(686,791)
Lease Liability	(37,588)	(37,088)	-	(37,088)
<b>Net asset</b>	<b>(585,588)</b>	<b>(946,025)</b>	<b>-</b>	<b>(946,025)</b>
<b>Deferred tax asset not recognised</b>	<b>-</b>	<b>(946,025)</b>	<b>-</b>	<b>(946,025)</b>

**29 . Contingent liabilities and commitments including off Balance Sheet items**
**29.1 . Legal claims**

- There are no legal claims against the Bank as at December.31, 2023,(2022:Nil).

**29.2 . Capital commitments**

	Dec.31, 2023	Dec.31, 2022
	Ksh Thousands	Ksh Thousands
Authorised and contracted for	118,764	24,206

**29.3 . Letters of credit, guarantees and other commitments**

	Dec.31, 2023	Dec.31, 2022
	Ksh Thousands	Ksh Thousands
Letters of credit (import and export)	36,174	874,574
Letters of guarantee	207,394	165,724
Other contingent liabilities	858,550	702
<b>Total</b>	<b>1,102,118</b>	<b>1,041,000</b>

**29 . Transactions with related parties**

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

Commercial International Bank (CIB) Kenya is a fully owned subsidiary of Commercial International Bank (CIB) Egypt. There are other entities related to the Bank through shareholding or directorship.

Placements at 31 December 2023 include placements made in the Bank by directors, their associates and companies associated to directors. Advances to customers and deposits at 31 December 2023 include loans and advances to companies associated to directors, employees of the Bank and, also deposits held with related parties respectively.

The table below outlines these balances as included in the loans and advances and deposits balances at year end:

	Directors' associated companies		Employees/staff	
	Dec.31, 2023 Ksh Thousands	Dec.31, 2022 Ksh Thousands	Dec.31, 2023 Ksh Thousands	Dec.31, 2022 Ksh Thousands
<b>Movement in related party balances was as follows:</b>				
<b>Loans and advances:</b>				
At 1 January	1,504,184	462,410	77,928	80,221
Net movement during the year	(1,504,184)	1,041,774	67,305	(2,293)
<b>At year end</b>	<b>-</b>	<b>1,504,184</b>	<b>145,233</b>	<b>77,928</b>
<b>Interest earned during the year</b>	<b>-</b>	<b>162,699</b>	<b>16,864</b>	<b>7,864</b>
Letter of credit, guarantees	-	12,588	-	-
<b>Deposits:</b>				
At 1 January	3,356,485	3,600,646	56,648	28,028
Net movement during the period	(3,356,485)	(244,161)	2,597	28,620
<b>At year end</b>	<b>-</b>	<b>3,356,485</b>	<b>59,245</b>	<b>56,648</b>
<b>Interest paid during the year</b>	<b>-</b>	<b>269,986</b>	<b>2,315</b>	<b>1,311</b>

**Key management compensation**

The remuneration of directors and other members of key management during the year were as follows:

	Dec.31, 2023 Ksh Thousands	Dec.31, 2022 Ksh Thousands
Key management salaries and other benefits	235,272	183,155
Directors' emoluments - fees	6,668	5,864
	<b>241,940</b>	<b>189,019</b>

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of the individuals and market trends.

	Dec.31, 2023 Ksh Thousands	Dec.31, 2022 Ksh Thousands
<b>Other transactions with related parties</b>		
Balances due from CIB Bank	1,492,753	34,726
Balances due to CIB Bank	1,093,698	132,810

**30 . Main currencies positions**

	Dec.31, 2023	Dec.31, 2022
	Ksh Thousands	Ksh Thousands
US dollar	144,662	674
Sterling pound	971	820
Euro	189	950
Other	250	223

**31 . Right of use asset**

The Bank leases office space and IT equipment for its use. Information about the leases in which the Bank is a lessee is presented below:

	2023	
	Office space Ksh Thousands	Total Ksh Thousands
<b>Amounts recognised in the statement of financial position</b>		
<b>Cost</b>		
At 1 January	198,455	198,455
Additions/lease asset recognized during the year	2,962	2,962
Derecognition of lease	-	-
At 31 December	<u>201,417</u>	<u>201,417</u>
<b>Accumulated Depreciation</b>		
At 1 January	93,123	93,123
Derecognition of lease	-	-
Current year depreciation	35,234	35,234
At 31 December	<u>128,357</u>	<u>128,357</u>
<b>Net book value at end of the year</b>	<u>73,060</u>	<u>73,060</u>

**Amounts recognised in profit and loss**

Depreciation expense on right-of-use assets	35,235	35,235
Interest expense on lease liabilities	11,395	11,395
<b>Total</b>	<u>46,630</u>	<u>46,630</u>

The Bank is not committed to any arrangements that are short term as at Dec.31,2023, (2022:nil)

The total cash outflow for leases amounted to Ksh 49 million for the 12 months year ended 31 Dec 2023 (2022: Ksh 46 million).

There are no restrictions or covenants imposed by lessors and the Bank did not enter into any sale and leaseback transactions during the year (2022 Nil)

	2022	
	Ksh Thousands Office space	Ksh Thousands Total
<b>Amounts recognised in the Statement of financial position</b>		
<b>Cost</b>		
At 1 January	171,197	171,197
Additions/lease asset recognized	36,433	36,433
Derecognition of lease	(9,175)	(9,175)
At 31 December	<u>198,455</u>	<u>198,455</u>
<b>Accumulated Depreciation</b>		
At 1 January	61,022	61,022
Derecognition of lease	(2,232)	(2,232)
Current year depreciation	34,333	34,333
At 31 December	<u>93,123</u>	<u>93,123</u>
<b>Net book value at end of year</b>	<u>105,332</u>	<u>105,332</u>

**Amounts recognised in profit and loss**

Depreciation expense on right-of-use assets	34,333	34,333
Interest expense on lease liabilities	15,203	15,203
<b>Total</b>	<u>49,536</u>	<u>49,536</u>

**32 . Lease liabilities**

	Dec. 31, 2023 Ksh Thousands	Dec. 31, 2022 Ksh Thousands
<b>The movement in the lease liabilities is as follows:</b>		
Balance at 1 January	123,628	125,293
Payment of lease liabilities	(48,687)	(46,358)
Interest on lease liabilities	11,395	15,203
Additions/lease asset recognized	2,962	36,433
Derecognition of lease	-	(6,943)
<b>At year end</b>	<b>89,298</b>	<b>123,628</b>
Amounts due for settlement within 12 months	41,222	37,490
Amounts due for settlement after 12 months	48,076	86,138
<b>Total</b>	<b>89,298</b>	<b>123,628</b>
<b>Maturity Analysis of undiscounted cashflows</b>		
	Ksh Thousands	Ksh Thousands
Year 1	50,134	48,859
Year 2	31,911	48,490
Year 3	10,724	29,309
Year 4	8,337	12,568
Year 5	280	7,587
Above 5 years	-	280
<b>Total</b>	<b>101,386</b>	<b>147,093</b>

The Bank does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the Bank's treasury function.

**33 . Events after the reporting date**

The Board of Directors approved the financial statements on 14 March 2024 and authorised that the financial statements be issued. On this date, the Directors were not aware of any other matters or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of the Bank and results of its operations as laid out in these financial statements.

