

# **African Banking Corporation Limited and Its Subsidiaries**

---

Annual Report and Financial Statements  
for the year ended

31 December 2023

<b>Table of contents</b>	<b>Pages</b>
<b>Annual Report</b>	
Corporate Information	2 - 5
Statement of the Chairman	6 - 10
Statement of the Group Managing Director	11 - 15
Report of Directors	16 - 17
Statement On Corporate Governance	18 - 31
Statement of Directors' responsibilities	32
<b>Report of the Independent Auditor</b>	33 - 35
<b>Financial Statements</b>	
Consolidated and bank statements of profit and loss and other comprehensive income	36
Consolidated and bank statements of financial position	37
Consolidated statements of changes in equity	38
Bank statement of changes in equity	39
Consolidated and bank statements of cash flows	40
Summary of accounting policies	41 - 93
Notes to the annual financial statements	94 - 115

# Corporate Information

## Abbreviations

In this document we have used the following abbreviations;

ABC	African Banking Corporation	NSE	Nairobi Stock Exchange
ACIB	Associate of the Chartered Institute of Bankers	NSSF	National Social Security Fund
AIBL	ABC Insurance Brokers Limited	OCI	Other Comprehensive Income
AIBK	Association of Insurance Brokers of Kenya	PD	Probability of Default
ALCO	Assets and Liabilities Management Committee	PMP	Project Management Professional
AML	Anti-Money Laundering	PTC	Purchase and Tendering Committee
ASAL	Arid and Semi-Arid Land	RWA	Risk Weighted Assets
BAC	Board Audit Committee	SCNA	Sun Certified Network Administrator
BCC	Board Credit Committee	SCSA	Sun Certified System Administrator
BIS	Bank for International Settlements	SDG	Sustainable Development Goals
BOU	Bank of Uganda	SME	Small and Medium Enterprises
BNRC	Board Nomination and Remuneration Committee	SPPI	Solely Payment of Principal and Interest
BRCC	Board Risk and Compliance Committee	TCFD	Taskforce on Climate related Financial Disclosure
CBK	Central Bank of Kenya	WIBA	Work Injury Benefits Act
CC	Credit Committee	WIP	Work in Progress
CISA	Certified Information Systems Auditor		
CMA	Capital Markets Authority		
COBIT	Control Objectives for Information and Related Technologies		
CRRM	Climate Related Risk Management		
CSR	Corporate Social Responsibility		
EAD	Exposure at Default		
ECL	Expected Credit Loss		
ESG	Environmental, Social and Governance		
EIB	European Investment Bank		
FSV	Forced Sale Value		
FVTOCI	Fair Value Through Other Comprehensive Income		
FVTPL	Fair Value Through Profit or Loss		
GDP	Gross Domestic Product		
HRC	Human Resource Committee		
HSC	Health and Safety Committee		
IAS	International Accounting Standard		
IASB	International Accounting Standards Board		
IASC	International Accounting Standards Committee		
ICPAK	Institute of Certified Public Accountants of Kenya		
IESBA	International Ethics Standards Board for Accountants		
IFRIC	International Financial Reporting Interpretation Committee		
IFRS	International Financial Reporting Standard		
IRA	Insurance Regulatory Authority		
ISA	International Standards on Auditing		
ISACA	Information Systems Audit and Control Association		
ITIL	Information Technology Infrastructure Library		
KDIC	Kenya Deposits Insurance Corporation		
KFSSG	Kenya Food Security Steering Group		
KRA	Kenya Revenue Authority		
KYC	Know Your Customer		
LGD	Loss Given Default		
LTV	Loan To Value		
MANCO	Management Committee		
NDSC	National Drought Steering Committee		
NFNF	Non-Food non-fuel		
MPC	Monetary Policy Committee		
NPLC	Non-Performing Loans Committee		
NSCD	National Steering Committee on Drought		

# Corporate Information (continued)

---

## Vision, Mission, and Core Values

We are a relationship bank, placing our customers at the core of our business by offering them services in line with our corporate vision, mission, core values, and ABC Bank Charter:

### **Vision**

Empowering you to achieve the extra-ordinary.

### **Mission**

To nurture lasting relationships with all our stakeholders through innovative value adding financial solutions and services that help them realize their objectives.

### **Core Values**

#### *Customer Centricity*

We strive to be an understanding, friendly, flexible, and reliable bank in meeting our customer needs.

#### *Professionalism*

We exhibit professional conduct and sound judgment in standards and service; we are objective and focused on issues.

#### *Teamwork*

We believe that the path to greatness is along with others.

#### *Excellence*

We pride ourselves in our relentless pursuit of excellence by improving the quality of everything we do.

#### *Commitment*

We are deeply committed to our customers, to each other and every community we serve.

#### *People*

We have a dedicated team of experienced, qualified, and professional staff. Our blend of innovativeness, dynamism, and passion in doing what we do inspires us to want to do more in order to achieve the best.

From the Group CEO to the bank tellers, these unique qualities are always at play enabling our customers to expect and get tailor-made solutions to their needs.

## Corporate Information (continued)

Board of Directors	Mr. Richard Omwela Mr. Shamaz Savani Mr. Sridhar Natarajan Mr. Ashraf Savani Mr. Joseph Muiruri Mr. Alban Mwendar	- Chairman - Group Managing Director - Group Chief Executive Officer
Board Audit Committee	Mr. Joseph Muiruri Mr. Ashraf Savani Mr. Alban Mwendar	- Chairman
Board Credit Committee	Mr. Alban Mwendar Mr. Ashraf Savani Mr. Sridhar Natarajan	- Chairman
Board Risk and Compliance Committee	Mr. Joseph Muiruri Mr. Ashraf Savani	- Chairman
Board Nomination and Remuneration Committee	Mr. Alban Mwendar Mr. Shamaz Savani Mr. Sridhar Natarajan Mr. Ashraf Savani	- Chairman
Executive Committee	Mr. Shamaz Savani Mr. Sridhar Natarajan Mr. Josiah Muia Mr. Chea Ngolo Mr. Philip Wambua Mr. Raj Pal Arora Ms. Corline Amanda Mr. Peter Kinyanjui Ms. Wambui Kaguongo Ms. Elizabeth Kimani Mr. Boniface Kioko	- Chairman - Group Chief Executive Officer - Head of Corporate Banking - Head of Finance & Strategy - General Manager Treasury - Chief Credit Risk Officer - Head of Retail Banking - General Manager – Business Development - Head of Product Development & Marketing - Head of Operations - Head of Credit & Legal
Assets and Liabilities Committee	Mr. Sridhar Natarajan Mr. Shamaz Savani Mr. Chea Ngolo Mr. Philip Wambua Mr. Josiah Muia Ms. Corline Amanda Mr. Patrick Ngure Mr. Raj Pal Arora Mr. Peter Kinyanjui	- Chairman
Company Secretary	Ms. Francisca Ngina Wambua Certified Secretary and Advocate P. O. Box 69388, 00400 Nairobi	

## Corporate Information (continued)

Registered Office	ABC Bank House LR No. 1870/IX/107 6 <sup>th</sup> Floor, Woodvale Grove P. O. Box 13889, 00800 Nairobi		
Head Office	ABC Bank House 6 <sup>th</sup> Floor, Woodvale Groove P. O. Box 13889, 00800 Nairobi		
Independent Auditor	Grant Thornton LLP Certified Public Accountants (Kenya) 5 <sup>th</sup> Floor, Avocado Towers, Muthithi Road, Westlands P. O. Box 46986, 00100 Nairobi		
Lawyers	Muriu Mungai & Co Advocates MMC Arches, Spring Valley Crescent, Off Peponi Road, Westlands P. O. Box 75362, 00200 Nairobi, Kenya  Kipkenda & Co Advocates Off Riverside Drive (behind 9 Riverside Building) P. O. Box 56832, 00200 Nairobi, Kenya  Kimani Michuki Advocates Royal Offices, 5 <sup>th</sup> Floor Mogotio Road off Chiromo Lane, Westlands P. O. Box 70858, 00400 Nairobi, Kenya		
Branches	Westlands Branch ABC Bank House P. O. Box 38610, 00623 Nairobi	Industrial Area Branch, ABC Bank Building, Dar es Salaam P. O. Box 18053, 00500 Nairobi	Thika Road Mall Branch Thika Road P. O. Box 38867, 00100 Nairobi
	Libra House Branch Libra House, Mombasa Road P. O. Box 17760, 00500 Nairobi	Greenhouse Mall Branch Ngong Road P.O. Box 38868, 00100 Nairobi	Koinange Street Branch College House, Koinange Street P. O. Box 30359, 00100 Nairobi.
	Eldoret Branch Zul Arcade, Oginga Odinga Road P. O. Box 2558, 30100 Eldoret	Meru Branch Moi Avenue P. O. Box 3100, 60200 Meru	Mombasa Branch Shariff Nasser Investment Building Moi Avenue P. O. Box 88827, 80100 Mombasa
	Kisumu Branch Reliance House, Oginga Odinga Road P. O. Box 2931, 4100 Kisumu	Nakuru Branch Dimu House, Kenyatta Avenue P. O. Box 13145, 20100 Nakuru	

# Reflections from the Chairman



“I remain extremely proud of the Bank’s resiliency and of what our employees have achieved, collectively and individually.”

In Kenya and indeed across the globe, 2023 was another year of significant challenges: from the impact of geopolitical conflicts such as a terrible war in Ukraine and Israel-Gaza conflicts to local political and socioeconomic challenges. Kenya experienced rising inflationary pressures amid commodity price volatility, tightening global financing conditions that put major pressure on the exchange rate and foreign exchange reserves, further aggravated by drought significantly increasing food insecurity and affecting millions of livelihoods.

While all these experiences and associated impacts have serious ramifications on our company, colleagues, clients, and the country in which we do business, their consequences are far more important.

On the other hand, the environment presented significant opportunities for growth. The Bank’s balance sheet expanded by Sh 5.4 billion on account of new loans to support our different business segments which further played the role of strengthening the government’s effort in economic recovery and transformation.

I remain proud of the Bank’s resiliency and of what our employees have achieved, collectively and individually. Throughout these challenging past few years, we never stopped doing all the things we should be doing to serve our clients and our communities.

In my reflections, I discuss the following.

## Our operating landscape

Kenya’s economic performance strengthened in 2023 despite continued challenges, with real GDP growth accelerating from 4.8 percent in 2022 to an estimated 5.8 percent in 2023 (Quarter 3, 2023: 5.9 percent). The improved growth performance was 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. The economy is expected to remain strong in 2024

supported by the resilient services sector, improved performance in agriculture, implementation of measures to boost economic activity in priority sectors by the Government, and the improved global growth outlook which is expected to benefit exports.

The country has undergone a poly-crisis which has characterised our operating environment: 1) Sticky inflation; 2) Foreign exchange pressure; 3) Fiscal consolidation and tighter monetary policy 4) Geopolitical conflicts.

### Sticky inflation

Headline inflation softened to 6.6 percent in December 2023 from 9.1 percent in the previous year mainly due to increases in prices of commodities under Transport (11.7 percent); Housing, Water, Electricity, Gas and other fuels (8.3 percent); and Food and Non-Alcoholic Beverages (7.7 percent) between December 2022 and December 2023. Food inflation has remained sticky largely reflecting higher prices of a few non-vegetable items, following reduced supply partly attributed to seasonal factors. Fuel inflation increased in January 2024, largely due to higher electricity tariffs.

As the overall inflation remained sticky in the upper bound of the target range, MPC in the meeting held on 6th February 2024, observed that all key components of inflation—fuel, food, and NFNF— had increased in January. Albeit reduced, pressures on the exchange rate were noted and therefore the Committee raised the Central Bank Rate (CBR) from 12.5 percent to 13.0 percent to stabilize prices. The action is expected to anchor inflation within expectation while setting it on a firm downward path towards the 5.0 percent mid-point of the target range, as well as addressing residual pressures on the exchange rate.

The risks to inflation remain elevated in the near term, reflecting the impact of second-round effects of the rise in fuel inflation, and pass-through effects of exchange rate depreciation.

### Foreign exchange pressure

The Kenyan shilling depreciated against the US Dollar by 25.0 percent in 2023, to close at Sh 153.2 from Sh 122.5 at the end of 2022. The trend was partly attributable to increased dollar demand in the energy, oil, and manufacturing sectors. Key to note, this is the lowest the shilling has ever depreciated against the dollar in 2023. In 2024, the Kenya shilling has ceded ground against the US Dollar to average at Sh 143.6 in February 2024. The appreciation of the currency was mainly attributed to the recent policy rate increase by 0.5 percent to 13.0 percent in an effort to support the weakening shilling. In addition, the successful buyback of the USD 2.0 billion Eurobond and

## Reflections from the Chairman (continued)

issuance of a new USD 1.5 billion boosted investor confidence reducing the uncertainty around the exchange rate and thus a lack of incentive to hold on to the dollar. This gain in the exchange rate is expected to stabilize the economy and hence inflation.

The shilling is expected to remain under pressure in 2024 as a result of:

- The widening current account deficit due to an imbalance between imports and exports. The wider deficit reflects a higher import bill, particularly for oil, which more than offset increased receipts from agricultural and services exports, and remittances;
- The aggressively growing government debt servicing, to continue to put pressure on forex reserves given that 67.5 percent of Kenya's external debt was US Dollar denominated as of September 2023;
- Dwindling forex reserves, currently at USD 7.2 billion (equivalent to 3.9 months of import cover), which is below the statutory requirement of maintaining at least 4.0 months of import cover; and
- The rise in global crude oil prices on the back of persistent supply chain bottlenecks further exacerbated by geopolitical pressures.

### Fiscal consolidation and tighter monetary policy

The country's debt-related risk has been rising on account of heavy borrowing amidst rising interest rates and weakening shilling against major international currencies. Kenya was among the low and middle economies that relied on debts for budgetary support and infrastructural developments.

In 2023, Kenya embarked on several policy changes such as the implementation of an expanded tax base and a raft of revised taxes aimed at increasing revenue collection to meet increasing obligations which included debt sustainability. The implementation of the Finance Act 2023 was meant to help the Government in its revenue mobilization agenda. The Government's efforts remain a gradual reduction of the overall fiscal deficit and the pace of debt accumulation over the medium term as well as an effective liability management strategy.

To date, the economy of Kenya faces several headwinds that challenge its growth momentum such as heightened fiscal and external vulnerabilities manifested through high public debt, elevated cost of living, exchange rate pressures, global economic uncertainties, and tight global financial conditions.

### Geopolitical conflicts

The horrible Russia-Ukraine war which began on 24th February 2022 continued into 2023 with no end in sight. The impact of the war continued to be felt globally with the African markets bearing the greatest hit such as increase in prices of commodities such as oil, natural gas, and grains owing to the disruption of the global supply chain. Its effect on stock markets mostly tech-related stocks prompted economic planners to take a contractionary monetary

approach through increase in interest rates. The world responded with a raft of sanctions against Russia which aggravated further the supply chain of the highlighted commodities.

Kenya like many other African countries continued to bear the brunt of the war which further impacted the stability of the local currency against the US dollar. The rising prices of commodities as a result of the war and the depreciating shilling compounded the plight of millions of people resulting in a high cost of living.

Just when the world eagerly expected Russia-Ukraine war to end, another horrible war broke out in the Middle East between Israel and Hamas. The war was sparked by Hamas when they attacked and killed some Israelis and carried some as hostages. The impact of the prolonged war amplified the risk of regional conflict. Some major impacts of the war on economies included:

- Outflows of capital from frontier markets such as Kenya as investors seek safe havens in developed markets.
- Further weakening of domestic currencies against the dollar exposed the economies to sticky inflationary pressure especially Kenya being a net importer.

The prolonged Israel-Hamas conflict has sparked red-sea crisis caused by attacks by Yemen-based and Iran-backed Houthi militant group on shipping vessels in the Red Sea. The effect of which is further disruption of the supply chain with a potential for inflation to pick up again delaying the rate-cutting cycle, particularly if the maritime security risks persist well into 2024.

## Corporate governance

I cannot over-emphasize the role the Board played in 2023 to ensure the Bank successfully navigated the mounting challenges. The growing number of risks of uncertainties and complexities defined our operating landscape. Nonetheless, I am proud to report that our steadfast commitment to effective governance and strategic guidance has been instrumental in sustaining the Bank's resilience and progress.

Despite the absence of changes in the Board composition, our collective expertise, diverse perspectives, and depth of experience provided invaluable insights and guidance to the executive management team. Regular meetings, strategic discussions, and thorough assessments enabled us to identify emerging risks, capitalize on opportunities, and make informed decisions to safeguard the Bank's interests and enhance shareholders value.

### Promoting trust and integrity

The principle of fostering trust and integrity has been the cornerstone of our governance approach. By upholding the highest ethical standards and promoting transparency in our deliberations and decisions, we have instilled confidence among stakeholders and maintained credibility in the face of

## Reflections from the Chairman (continued)

challenges. This commitment to integrity has not only reinforced our corporate reputation but also has served as a guiding beacon in times of uncertainty.

Throughout the period, the Board remained vigilant and actively engaged in monitoring the Bank's performance, risk management practices, and adherence to regulatory requirements. Our unwavering dedication to upholding the highest standards of corporate governance ensured that the Bank continued to operate with integrity, transparency, and accountability.

### Promoting open communication

Open communication has been paramount in navigating the challenging environment of 2023. The Board fostered an environment where diverse perspectives were welcomed, and constructive dialogue was encouraged. Regular meetings, strategic discussions, and transparent exchanges of information allowed us to assess risks, evaluate opportunities, and make informed decisions collaboratively. By promoting an atmosphere of trust and candor, we facilitated effective problem-solving and ensured alignment with the Bank's strategic objectives.

Despite the turbulent landscape, the Board remained steadfast in its commitment to steering the Bank towards sustainable growth and success. Our collective efforts, underpinned by the principles of trust, integrity, and open communication, have enabled us to navigate challenges, capitalize on opportunities, and uphold the interests of our stakeholders.

## Specific issues facing us

### How we are responding to impact of climate risk

Climate change is an ongoing and impending environmental crisis. The impact of climate change cannot be ignored: from drought to flooding threatening the future survival of humanity. Climate change presents significant challenges that require collective action and commitment.

Luckily, global and national leaders are talking about it and mitigation efforts are part of the agenda. As a Bank, we are committed to sustainable banking practices to promote environmental sustainability such as reducing our carbon footprint, supporting green projects, and raising awareness about environmental conservation. During the period the Bank undertook to mitigate climate-related risks and support green initiatives.

One notable initiative that demonstrates our commitment to environmental stewardship is our participation in National Tree Planting Day on November 13, 2023. On this day, board members actively participated in tree-planting initiatives within our communities. By planting trees, we contribute to carbon sequestration, improve air quality, and promote biodiversity, thereby mitigating the impact of climate change.

Moreover, the Bank has been extending credit lines to support green projects, particularly in the area of renewable energy. We understand the importance of transitioning to a low-carbon economy and reducing dependence on fossil fuels. As such, we have provided financing to green energy projects such as solar, wind, and hydroelectric power generation. These projects not only contribute to reducing greenhouse gas emissions but also create sustainable economic opportunities and promote energy independence.

Our board members have played an active role in championing green initiatives, advocating for sustainable practices, and ensuring that environmental considerations are integrated into our business strategies. By aligning our financial activities with environmental objectives, we demonstrate our commitment to promoting a greener, more sustainable future for generations to come.

### We are vigilant against cyber attack

Protecting the integrity of our operations and customer data has been at the top of the priority list. We are aware of the prevalent risks posed by the changing social and economic environmental landscape. The Bank has been proactive in strengthening its cybersecurity posture and mitigating potential risks.

In today's interconnected digital landscape, cybersecurity threats pose significant challenges to financial institutions like ours. At African Banking Corporation, we recognize the importance of safeguarding our systems, data, and infrastructure against evolving cyber threats. Over the past year, we have implemented a comprehensive cybersecurity strategy aimed at enhancing our resilience and readiness to combat cyber attacks.

One key aspect of our cybersecurity strategy has been the development of internal capacity through training and seminars. We understand that cybersecurity is a shared responsibility, and investing in our employees' awareness and skills is essential to maintaining a robust defense posture. Therefore, we have organized regular training sessions and seminars to educate our staff about the latest cybersecurity threats, best practices, and response protocols. We have also implemented stringent access controls, encryption measures, and multi-factor authentication to safeguard sensitive information and prevent unauthorized access.

In addition, the Bank has developed and implemented a comprehensive cybersecurity policy that outlines our approach to managing cybersecurity risks. This policy establishes clear guidelines, procedures, and protocols for preventing, detecting, and responding to cyber threats. By adhering to this policy, we ensure consistency and effectiveness in our cybersecurity practices across the organization.

Another aspect of our cybersecurity efforts is confidentiality. We recognize the importance of protecting the privacy and confidentiality of our customers' information. Therefore, we have implemented robust controls and measures to ensure

## Reflections from the Chairman (continued)

that sensitive data is handled securely and only accessed by authorized personnel on a need-to-know basis.

### The changing competitive landscape

A lot is happening both locally and internationally. Some of the changes in financial services are being driven by the desire to maintain or grow market share as well as master enough capacity to withstand any changes that may impede profitability and growth.

As the Chairman of the Board, I would like to mention the intensifying competition within the banking industry and our strategic response to the evolving market dynamics.

The landscape of the financial sector has witnessed significant shifts, notably marked by recent mergers and acquisitions that have reshaped the competitive landscape. In particular, the acquisitions of First Community Bank Limited (FCB) by Premier Bank Limited, Somalia (PBLs), Maisha Microfinance Bank Limited (Maisha MFB) by Cactus Cantina Investments Limited (Cactus Cantina), and SMEP Microfinance Bank PLC (SMEP MFB) by HOPE Advancement Inc. (HOPE) underscore the ongoing consolidation within the industry. These transactions have resulted in the emergence of stronger and more competitive players, setting the stage for heightened competition for market share and customer loyalty.

Other players in the industry are actively seeking to bolster their capital positions by raising new capital. This strategic move aims to enhance financial strength, support expansion initiatives, and position banks favorably amidst competitive pressures. As such, banks are exploring various avenues to raise capital and fortify their balance sheets to seize emerging opportunities and navigate regulatory requirements.

It is important to note that competition from the fintech community poses a significant challenge to traditional banking models. For instance, the recent regulatory approval of Safaricom's daily MPESA limit on its mobile money platform to Sh 500,000 exemplifies the increasing capacity of fintech players to compete with commercial banks. This development underscores the need for traditional banks to embrace innovation and adapt to evolving consumer preferences and technological advancements to remain competitive.

In response to these challenges, the Bank is strategically investing in mobile banking transformation to align with evolving consumer preferences and enhance its competitiveness. We recognize the importance of embracing digital transformation to deliver seamless banking experiences, streamline operations, and differentiate ourselves in the market. I discuss more about our digital transformation journey in the next section.

Moreover, proposed regulatory changes, such as increases in regulatory fees and mandatory capital requirements, are expected to further spur mergers and acquisition activities within the industry. These changes will likely incentivize consolidation as banks seek to optimize their operations,

achieve economies of scale, and comply with regulatory mandates.

Despite the competitive pressure in our operating environment, we remain committed to strengthening our competitive position through strategic innovation and digital transformation. We are proactively adapting to market changes, investing in technology, and enhancing our capabilities to meet the evolving needs of our customers and seize growth opportunities.

## Our strategic direction

### Digital transformation

As we continue to navigate the rapidly evolving landscape of the banking industry, at the heart of our strategy lies a steadfast commitment to digital transformation, a journey that will propel us towards our corporate purpose and create shared value for all our stakeholders.

In today's digital age, embracing technological innovation is not just a choice but a necessity. The Bank recognizes the transformative power of digital transformation in reshaping the way we operate, interact with customers, and deliver value. As such, we are significantly increasing our investment in digital technologies to enhance our capabilities, streamline processes, and improve customer experiences. For instance, the successful implementation of ABCConnect, a state-of-the-art omnichannel mobile application is a testament of our commitment to continue pursuing this initiative in a changing digital world.

We believe that by leveraging digital technologies, we can better serve the needs of our customers, empower our employees, and drive sustainable growth for our shareholders. Through digital innovation, we aim to foster financial inclusion, promote economic empowerment, and contribute to the overall well-being of the communities we serve.

To us, digital transformation enables us to adapt to changing market dynamics, stay ahead of competitors, and future-proof our business for the challenges and opportunities that lie ahead. By embracing digital disruption, we can unlock new revenue streams, optimize operational efficiencies, and enhance our agility and responsiveness to customer needs.

### Strengthening new and existing partnerships

One of the key enablers of our business sustainability moving forward is the strengthening of strategic partnerships, which we believe will be instrumental in building our competitive advantage on two critical fronts: capacity building and profitability & growth.

Strategic partnerships offer a unique opportunity for the Bank to leverage external expertise, resources, and networks to enhance our capabilities and drive sustainable growth. By collaborating with like-minded organizations, we can pool our strengths, mitigate weaknesses, and capitalize on synergies to achieve mutual success.

## Reflections from the Chairman (continued)

On the front of capacity building, strategic partnerships enable us to access specialized knowledge, skills, and resources that may not be readily available within our organization. Through strategic alliances with industry leaders, educational institutions, and technology providers, we can enhance our talent pool, foster innovation, and stay ahead of the curve in a rapidly changing landscape.

Strategic partnerships mean profitability and growth. By joining forces with complementary businesses, we can tap into new markets, expand our customer base, and unlock new revenue streams.

### Products and services innovation

Our recent achievement in upgrading our debit cards and enhancing our treasury module is a testament to our continued focus on delivering value addition and bringing convenience to our customers. Upgrading our debit cards was driven by our commitment to provide our customers with secure, convenient, and feature-rich payment solutions.

In addition, upgrading our treasury module, which plays a crucial role in managing our liquidity, investments, and financial risks was a significant milestone. This has enhanced our capabilities in liquidity forecasting, cash management, and risk analytics. We are now able to optimize our treasury operations, minimize risks, and maximize returns on our investments, ultimately benefiting our customers and shareholders alike.

Our focus on product and service innovation is driven by our unwavering commitment to meeting the diverse needs of our customer segments. We understand that different customers have different preferences, lifestyles, and financial goals. Therefore, we strive to offer a wide range of innovative products and services that cater to the specific needs and preferences of each segment, whether retail customers, SMEs, or institutional clients.

### Building capacity through technology investment

In today's fast-paced and digitally driven world, technology plays a pivotal role in shaping the banking industry. To us, we recognize the importance of embracing technological advancements to meet the evolving needs of our customers, improve operational efficiency, and maintain our competitive edge.

One of our key priorities is to enhance our digital channels to provide our customers with convenient and accessible banking experiences. We are investing in mobile banking applications and social banking platforms, a self-service kiosk to enable customers to access banking services anytime, anywhere, and on any device. By leveraging digital channels, we aim to offer a seamless and personalized banking experience that meets the diverse needs and preferences of our customers.

Additionally, the Bank is exploring the potential of emerging technologies such as artificial intelligence and machine

learning to drive innovation and create value. These technologies have the potential to revolutionize various aspects of banking, from customer service and risk management to fraud detection and personalized financial advice. By harnessing the power of AI and machine learning, we can unlock new insights, enhance customer engagement, and deliver superior outcomes for our stakeholders.

### Looking ahead

Going forward, I wish to reiterate that our plan to raise capital through a mix of equity and debt is ongoing. Currently, the Bank is at an advanced stage of engagement with an investment partner to bolster our capital which will enhance our liquidity; strengthen our capacity and competitiveness to serve our SME and MSME customers amidst changes in the operating environment occasioned by both local and global factors; and step-up growth in customer deposits from within Kenya and by tapping Kenya Diaspora in UK, USA, and Middle East. Capital action is one of our long-term strategic initiatives and underscores our commitment to ensuring long-term stability and sustainability of the Bank. We are confident that these partnerships will strengthen our position and enable us to continue delivering value to our stakeholders while meeting the CBK regulatory requirements.

I remain proud of our company's resiliency and of what our employees have achieved, collectively and individually. Throughout these challenging past few years, we never stopped doing all the things we should be doing to serve our clients and our communities.

Adhering to our core principles and strategies allows us to drive good organic growth and properly manage our capital as we have consistently demonstrated for decades.

### Conclusion

In conclusion, I extend my sincere gratitude to my fellow Board members and the management of the Bank for their unwavering dedication, expertise, and commitment to our shared goals. Together, we have demonstrated resilience, unity, and foresight in guiding the Bank through the trials of 2023, and I am confident that our continued adherence to our principles will pave the way for a brighter future.

I would like to thank all our customers and shareholders for their unwavering support. As a bank, we remain committed to our shared values and purpose of excellence, commitment, professionalism, and customer-centricity.



**Mr. Richard Omwela**  
Chairman

Date: <sup>26/3</sup>..... March 2024

# Reflections from the Group Managing Director



“With increased regulatory changes, the Bank is looking to invest in important areas such as technology to expand revenue streams and minimize costs while fortifying our balance sheet.”

## Highlighting our performance

In 2021, we rolled out Business Performance Re-engineering (BPR) strategy that laid the groundwork for us to accelerate our revenue and balance sheet growth. The strategy demanded for internal structural reviews to build more collaborations and teamwork in order to achieve the desired outcome. Our ambition under BPR has been to pursue sustainable growth of the business, accelerate transformation in line with our operating context and deliver sustainable returns for our shareholders. Since then, our business has remained stable and resilient pre and post COVID.

For instance, in 2023 our customer deposits expanded by Sh 2.7 billion to Sh 33.5 billion and our customer assets increased by Sh 5.3 billion to Sh 29.5 billion compared to the previous year respectively, supported by a solid strategy centered on being an “amazingly better choice” for all our customers.

Our revenue sources were well diversified with net interest income (NII) and non-funded Income (NFI) accounting for 82.1 percent and 17.9 percent of total revenue respectively. NII grew by 28.9 percent to Sh 2.0 billion (2022: Sh 1.5 billion) on account of 38.4 percent growth in revenue from customer loans and advances. NFI was impacted largely by our transition to risk-based pricing which required removal of appraisal and commitment fees.

The movement of 7.3 percent in operating expenses attributed to overall change in the country’s inflation compared to prior period. The movement of 15.0 percent in impairment charge on loans & advances and other financial assets increase was on account of prudent credit risk assessment in line with the prevailing economic conditions that affected the cost of living of most customers.

The above performance highlights and much more are captured in the following annual report and consolidated and

separate financial statements for the period ended December 31, 2023.

## Driving principles worth highlighting

In 2018, we rolled out four pillars encapsulated in our Bank Charter. The pillars highlight the Bank’s guiding principles for sustainability and growth. Adhering to our basic principles and strategies allows us to drive good organic growth and properly remain focussed, as we have consistently demonstrated for years now. I will discuss briefly about the four pillars.

**Customer Centricity:** African Banking Corporation Limited is a relationship bank with fierce loyalty to customers at all levels. The Bank focuses on offering great customer service experience by putting customers first and at the core of its business.

The Bank goes above and beyond to support clients while exceeding their expectations as a way of nurturing long-lasting relationships. By listening to our customer, professionally handling their complaints, managing robust feedback mechanisms, ensuring financial literacy to customers while making them feel appreciated has ensured we remain relevant even in the midst of fierce competition. Our communities have also given us opportunities to participate in their social economic activities during our corporate social responsibility (CSR) programs and events.

As a bank, we also continue to be innovative in our service delivery in order to ensure customer’s banking experience is seamless and enjoyable. For instance, the Bank enhanced its online channels by rolling out a state-of-the-art omni-channel internet banking platform called ABConnect. So far, our customer reviews are quite encouraging.

Under this pillar, seeing the future through the eyes of our customers is the reason for pursuing superior customer service and excellence, and ensuring customer-centricity remains at the core of our business.

**Risk-Based pricing:** At African Banking Corporation Limited, we believe that the customer borrowing journey begins with need for capital or consolidate capital to either start or grow their businesses or set aside funds to act as margins to support future borrowings. To us, our motivation is helping customers achieve their objectives while offering opportunities to save money through various savings schemes such as Target accounts and Flexi fixed deposit.

## Reflections from the Group Managing Director (continued)

The Bank uses information matrix to price customer's credit risk by keeping in view their financial trends and ratios, the age of their business, sector-specific risks, credit reference bureau ratings, the tenor of the facility, market potential, management and technical competencies of the promoters, collateral, among other factors. Our products are priced depending on prevailing environmental factors as well as regular guidance by the asset and liabilities committee (ALCO).

**Transparency:** Transparency has been at the core of our business operations and has played a pivotal role in ensuring the Bank remain resilient in the frequent changing environment. As we reflect on the past year's achievements, I am proud to report on our continued efforts to uphold transparency in all aspects of our operations.

Transparency is not just a buzzword for us; it is a fundamental principle that guides our interactions with our customers, shareholders, regulators, and the wider community. We believe that transparency builds trust, fosters accountability, and ultimately enhances our reputation as a reliable and responsible financial institution.

One of the key values of our transparency initiative is the accessibility and availability of bank information. We are committed to making relevant information readily available to our stakeholders, including the cost of credit, tariffs, terms and conditions governing our loan and liability accounts, and more. For instance, when pricing products we disclose tariffs to ensure that our customers are fully aware of the costs associated with our products and services. By providing clear and comprehensive information, we empower our customers to make informed decisions and manage their finances effectively.

The Bank is dedicated to offering structured dispute resolution mechanisms to address any concerns or issues raised by customers. We understand that disputes can arise from time to time, and it is our responsibility to resolve them promptly and fairly. Through our accessible and transparent dispute resolution processes, we aim to ensure that customer grievances are addressed in a timely and satisfactory manner, thereby building customer satisfaction and loyalty.

In addition to dispute resolution, we pride ourselves on our quick turnaround in addressing customer queries and complaints across all levels of the Bank. Whether it is a simple inquiry or a complex issue, our dedicated team is committed to providing timely and accurate responses, demonstrating our commitment to customer service excellence.

We emphasize on transparency as it is the cornerstone of the Bank's business philosophy, and it underpins our commitment to building trust, fostering accountability, and driving sustainable growth. We will continue to uphold these principles as we navigate the opportunities and challenges of the future, ensuring that transparency remains at the forefront of everything we do.

**Ethical Banking:** Ethical banking is not just a guiding principle for us; it is the foundation upon which we build

trust, integrity, and long-term relationships with our customers, shareholders, and communities. We believe that ethical conduct is not just a choice; it is a responsibility that we owe to our stakeholders and society at large.

To strengthen our principle on ethical banking in the period under review we focused on capacity building in critical areas such as sustainability, ESG disclosure, and implementation of the Central Bank guidance on climate-related risk management (CRRM). We firmly recognize the importance of equipping our team with the knowledge and skills necessary to navigate complex sustainability challenges and uphold the highest standards of ethical conduct. We are committed to providing comprehensive training, resources, and support to ensure our staff can effectively address these issues and comply with regulatory requirements within specified timelines.

As a bank, we are dedicated to investing in worthy causes that matter to our customers and us. Whether supporting community development projects, promoting environmental conservation initiatives, or championing social welfare programs, we believe in making a positive impact beyond financial transactions. By aligning our investments with our values and priorities, we can create meaningful change and contribute to the well-being of society.

Furthermore, we are committed to promoting the well-being of our customers and staff. We understand that our success is intrinsically linked to the satisfaction and welfare of our stakeholders. Therefore, we prioritize initiatives that enhance customer experience, ensure employee engagement, and foster a culture of inclusivity, diversity, and respect. By prioritizing the well-being of our stakeholders, we create a positive work environment and build stronger, more resilient communities.

In summary, customer-centricity, risk-based pricing, transparency and ethical banking are at the heart of everything we do. By focusing on doing the right thing, investing in worthy causes, promoting well-being, and investing in our people, we are not only driving business profitability and growth but also making a positive impact on society. We remain steadfast in our commitment to these principles and look forward to continuing this journey of responsible banking together.

### Our operating context

The operating environment continues to be complex and unpredictable, and we anticipate short-term challenges in the economic environment that may impact our delivery. Global growth prospects have been impacted by geopolitical crises that have disrupted the supply chain and intensified commodity market volatility. Furthermore, the risk of financial stress among the many emerging markets and developing economies continues to be elevated on account of rising global borrowing costs. The Bank has been on advanced stages of engagements with potential investors to increase its capital positioning as well as engaging debt providers to diversify the funding as well as concentration

# Reflections from the Group Managing Director (continued)

risk. In alignment with these realities, Kenya is undergoing an economic transition that will change the way government, households, and businesses interact with each other. Current economic realities are opening new opportunities while closing old ones. It is important that businesses adapt early to increase their chances of surviving.

## Government policy challenges

In 2023, the Government of Kenya, motivated by the desire to collect additional revenues imposed radical changes to its tax policies, instituted legal and administrative reforms that have translated to a significant shift in our economic landscape. These changes in policies are intended to address challenges created by local and global factors while also creating a conducive environment for business and enhancing public service delivery and efficiency. Several policy initiatives taken by the Government show increased efforts in enhancing tax collection pointing to an increased impetus in fiscal consolidation. It was therefore critical for us to align our business strategies with the evolving fiscal environment. Also, with the digitization of the land's registries and the backlog of judicial cases in courts, the recoveries of non-performing loans was slow but the as the digitization processes are now coming to finalization and the increase of judges in all the courts, there is a high expectation that the recovery cases will be faster going forward.

### *How we are responding*

The Government's Bottom Economic and Transformation Agenda, currently geared towards supporting SMEs and job creation presents opportunities for our business. We believe our experience in this space gives us a competitive advantage. In terms of the reduction of non-performing loans, the bank has created a dedicated team for recoveries and also strengthened its partnerships with professionals in the industry to allow for multiple approaches to settlement and recoveries. Being a relationship-based institution, the bank also looks at engaging with the clients that are facing economic challenges to work with them to restructure and obtain successful results.

With increased regulatory changes, the Bank is looking to invest in important areas such as technology to expand revenue streams and minimize costs while fortifying our balance sheet as well.

## Economic challenges

The country's economic outlook is subject to elevated uncertainties because of domestic and external risks. These are mainly driven by a sharp tightening of global financial conditions, high yields on sovereign bonds, and the depreciation of domestic currencies against the US dollar and other major currencies. This is expected to influence changes in monetary policies in emerging economies and developed economies. The last year saw a very steep and fast depreciation of the Kenya Shilling against the USD which increased the Kenya Shilling equivalent of foreign currency-based loans due to the depreciation which led to the value of

loans going beyond per party limits and the counter party limits for trade finance transaction being constrained. At the same time, the demand and appetite from the government to borrow from the domestic market through treasury bills and treasury bonds led to a crowding out effect as well as retail and institutional deposits moving to government securities leading to market liquidity challenges. As the Shilling was losing value, it led to many depositors converting the currency holdings to foreign based and also transferring funds to international jurisdictions due to higher and better perceived value, returns and opportunities.

### *How we are responding*

In the wake of a fast-evolving fiscal environment, it has become critical for us to align our business with changing economic moments. We believe we have enhanced our capability in line with our medium and long-term strategy in the context of these short-term challenges. Our state-of-the-art omnichannel internet banking platform, ABConnect, continues to give us a competitive edge in a rather competitive digital ecosystem. This will allow for diversification of the deposit base to more retail level deposits and also increase the number of depositors to a target market that is not directly influenced by government paper investments. In addition, the management has been in engagement with funders to provide medium to long term debt which would reduce the reliance on short term deposits as well as equity investment to increase the capital base of the bank as well.

We continue to remain innovative in the digital space and we expect to roll out other digital solutions with better capabilities to meet the evolving customer needs. The Bank is leveraging on its partnership with technology firms in a bid to build more capacity to reach new and existing under served markets that are attractive to us and resonate well with our group strategy. To underscore our commitment in this space, the Bank was feted as the Best Bank in Internet Banking (2nd Runners up) and Best Bank in Mobile Banking (2nd Runners up).

## Climate and sustainability agenda

At this point, I am delighted to share with you the Bank's unwavering commitment to sustainability and our ongoing efforts to align with the United Nations Sustainable Development Goals (SDGs). We have made significant strides in the space of promoting environmental, social, and governance (ESG) principles in all aspects of our operations.

One of our key initiatives in advancing our sustainability agenda was the investment in ESG skills development for our staff. Through comprehensive training, e-learning modules, and coaching programs, we equipped our team with the knowledge and skills necessary to integrate sustainability considerations into their daily practices. We also had several of our staff members undergo specialized training on

## Reflections from the Group Managing Director (continued)

sustainability and ESG disclosures, thus empowering them to drive positive change within our organization.

On the same note, the Bank fully embedded climate-related risk management in its Enterprise Risk Management framework. Currently, we are finalizing our engagement with the European Investment Bank to provide capacity-building training on climate-related risk management as well as implementation of the climate-related risk framework. This initiative is in line with Central Bank disclosure guidelines and complies with Task Force on Climate-related Financial Disclosures (TCFD) guidelines.

In line with our commitment to climate-related risk management, we have implemented robust screening processes to identify and assess environmental risks associated with our loan portfolio. By adhering to the guidance on climate-related risk management, we ensure that our lending practices are aligned with sustainable principles and contribute to mitigating climate change impacts. We are also actively screening vendors and suppliers for carbon-compliant behaviors and business transactions. By partnering with environmentally responsible suppliers, we aim to minimize our carbon footprint and promote sustainable supply chain practices across our operations.

As a bank, we view corporate social responsibility (CSR) as an integral part of our business strategy, and we are dedicated to making meaningful contributions to the UN sustainability goals through several CSR initiatives. Over time we have forged partnerships with hospitals, churches, religious institutions, and the education sector to address various sustainability challenges. The initiatives aim at promoting well-being, advancing education, and supporting community development while ultimately contributing to the achievement of several UN SDGs. To demonstrate our commitment, we were awarded the Best Bank in Sustainable Corporate Social Responsibility (1st Runners Up).

Cyber security threat has been on the rise in the recent past and therefore it has been critical for us to recognize the importance of safeguarding sensitive data and mitigating against the risk. Our efforts in this front included participating in the Cyber Shujaa Data Protection Bootcamps, a collaborative initiative by the Kenya Bankers Association, Serianu Limited, and the United States International University (USIU). These boot camps have equipped our staff with advanced cybersecurity skills, enabling them to effectively protect our systems, data, and operations from cyber threats.

In our pursuit of financial inclusivity, the Bank has partnered with technology firms to implement a digital wallet, driving accessibility to financial services for underserved communities. Through a mass-market strategy aimed at reaching the bottom of the pyramid, we are leveraging technology to empower individuals, businesses, and communities with access to banking services, thereby promoting economic empowerment and social inclusion.

In terms of governance, I am proud to announce that our business has been recognized for its outstanding performance

in sustainable corporate social responsibility and governance practices. We received the Champions of Governance award as the Best Bank in the Finance and Investment category (1st Runners Up). These accolades are a testament to our unwavering commitment to ethical business practices, transparency, and accountability.

African Banking Corporation Limited remains dedicated to advancing sustainability, driving positive impact, and creating long-term value for our stakeholders. Through investments in ESG skills development, cybersecurity, climate-related risk management, and governance excellence, we are confident in our ability to navigate the challenges of today while building a more sustainable future for generations to come.

### Future outlook

As we look towards the future, allow me to share with you our aspirations and strategic priorities that will guide us in our journey toward sustained profitability and growth.

While financial measures remain crucial under our Business Process Re-engineering strategy, we are placing greater emphasis on leading measures that focus on driving business growth and enhancing profitability, diversifying our funding sources by engaging on diversifying the funding using debt and equity structures. Our choices to achieve our goals in the medium and long term are anchored on three priority areas.

Our first priority is accelerating our digital transformation efforts. In today's rapidly evolving digital landscape, embracing technology is not just a choice but a necessity. Therefore, we will continue to invest in digital innovation to enhance customer experience, streamline operations, and drive efficiency across our business.

Our second priority is to keep innovation at the core of our strategy as we strive to offer value propositions in our products and services. We understand that customer needs and preferences are constantly evolving, and we are committed to staying ahead of the curve by delivering innovative solutions that meet and exceed their expectations. By fostering a culture of innovation, we will differentiate ourselves in the market and create sustainable competitive advantage.

Our third priority will be entrenching ESG in our operations and ensuring that we continue to meet the needs of different stakeholders. We are committed to conducting our business ethically, responsibly, and sustainably, thereby creating long-term value for our shareholders, customers, employees, and the communities we serve.

To achieve this, the Bank is banking on a highly motivated team to drive growth in key business segments.

### In closing

In closing, I would like to extend my heartfelt gratitude to our valued customers, whose trust and loyalty are the driving force behind our continued success. Your support inspires us

## Reflections from the Group Managing Director (continued)

to innovate, adapt, and exceed expectations, and we remain committed to serving you with excellence.

To our esteemed shareholders, thank you for your unwavering confidence in the Bank. Your investment and partnership enable us to pursue our strategic objectives, create value, and deliver sustainable returns over the long term. We are dedicated to maximizing shareholder value and maintaining transparency in all our endeavors.

I also wish to express our appreciation to our regulators namely, CBK, KRA, CMA, IRA, KDIC for their diligent oversight and collaboration. Your guidance and support play a crucial role in ensuring the stability and integrity of the financial system, and we value our constructive partnership as we work together to uphold industry standards and regulatory compliance.

Last but certainly not least, I extend my deepest gratitude to our dedicated and talented employees. Your hard work commitment, and passion are the driving force behind our achievements. Together, we have navigated challenges, embraced opportunities, and remained steadfast in our pursuit of excellence. Your contributions are truly invaluable, and I am proud to lead such a remarkable team.

As we reflect on the past year's accomplishments and look forward to the opportunities ahead, let us continue to collaborate, innovate, and drive positive change. Together, we will build a brighter future for the Bank and all our stakeholders.



**Mr. Shamaz Savani**  
Group Managing Director

Date: .....<sup>28</sup> March 2024

# Report of the Directors

for the year ended 31 December 2023

The Directors present their report together with the audited consolidated and separate financial statements of African Banking Corporation Limited (the “Bank”) for the year ended 31 December 2023, which disclose its state of affairs in accordance with the Kenyan Companies Act, 2015.

## 1. Principal activities

The principal activities of the Group include offering banking, stock brokerage, investment advisory, insurance, risk management and financial services.

African Banking Corporation Limited is the ultimate holding company of all subsidiaries namely; ABC Financial Services Limited which is an investment and holding company of ABC Capital Limited, ABC Nominee Limited, ABC Insurance Brokers Limited and ABC Capital Bank Uganda Limited.

African Banking Corporation (ABC) Limited (“Bank”) is a financial services institution that is licensed and regulated by the Central Bank of Kenya (CBK) under the Companies Act, 2015, and Banking Act (CAP 488). The Bank offers banking services to customers in the retail, small and medium enterprise (SME) and corporate segments.

ABC Capital Limited is a stock brokerage company in Kenya offering a flexible range of world class wealth management services to investors in the East Africa region. The company is a member and shareholder of the Nairobi Securities Exchange (NSE) since inception in 1954 and is regulated by the Capital Market Authority (CMA). ABC Capital deals in equity dealing, providing custodial and brokerage services, clearing and settlement of trades.

ABC Insurance Brokers Limited (AIBL) is a member of the Association of Insurance Brokers of Kenya (AIBK) and is registered by the Insurance Regulatory Authority (IRA). AIBL offers a wide range of comprehensive products such as motor vehicle, fire, computer, marine, burglary, and life insurance. In addition, the company offers Work Injury benefits (WIBA) compensation, mortgage protection, bonds and domestic package insurances. AIBL has been in existence for over 22 years, and has a strong team of experienced professionals, guided by the company principles of customer-centricity, integrity, credibility and accountability; to meet individual and family insurance needs, as well as a variety of business insurance products.

ABC Capital Bank Uganda Limited is a fully fledged commercial bank licensed and supervised by Bank of Uganda (BOU) under the Financial Institutions Act 2004. The Bank deals in offering financial services to both retail, Small and Medium Enterprises (SMEs) and corporate market segment.

## 2. Results / business review

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Profit before taxation	200,368	239,997	198,481	202,246
Taxation credit	35,723	22,239	50,172	33,498
<b>Profit for the year</b>	<b>236,091</b>	<b>262,236</b>	<b>248,653</b>	<b>235,744</b>
<b>Attributable to:</b>				
Equity holders of the parent company	241,975	251,597	248,653	235,744
Non-controlling interests	(5,884)	10,639	-	-
	<b>236,091</b>	<b>262,236</b>	<b>248,653</b>	<b>235,744</b>

Net profit closed at Sh 236 million (2022: Sh 262 million). Total operating revenue grew by 5.8% to Sh 2.4 billion from 2.3 billion on account of growth in net interest income partly offset by drop in non-funded income.

The principal risks and uncertainties facing the Group as well as the risk management framework are outlined in Note 4 of the consolidated and separate financial statements.

## Report of the Directors (continued)

for the year ended 31 December 2023

### 3. Statement of disclosure to the Bank's Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

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

### 4. Terms of appointment of the Auditor

Grant Thornton LLP., Certified Public Accountants (K), continues in office in accordance with the company's Article of Association and Section 719 of the Companies Act, 2015. The Directors monitors the effectiveness, objectivity and independence of the auditors. The Directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

### 5. Dividends

The Board of Directors do not recommend the declaration of a dividend for the year ended 31 December 2023 (2022: Nil).

### 6. Events after the reporting period

The Directors are not aware of any material event which occurred after the reporting date and up to the date of the Director's Report.

### 7. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting held on .....<sup>28</sup> March 2024.

BY ORDER OF THE BOARD

  
**FRANCISCA N. WAMBUA**  
 CPS (K) 2098  
 COMPANY SECRETARY  
 P. O. Box 69388 00400,  
 NAIROBI

Secretary

Date: .....<sup>28</sup> March 2024

# Statement On Corporate Governance

for the year ended 31 December 2023

African Banking Corporation Limited (the “Bank”) is fully committed to the principles of transparency, integrity and accountability. The Directors are ultimately accountable to all stakeholders for ensuring that the Bank’s business is conducted in accordance with high standards of corporate governance. Of particular importance to the Bank is the observance of shareholders’ interest, efficient practices and open corporate communication systems.

## 1. Governance framework

At African Banking Corporation Limited (the “Bank”), the Board has the ultimate responsibility to ensure that the Bank conducts its business with high standards of integrity, transparency and accountability across all levels. The corporate governance framework, established by the Board of Directors includes a robust management structure built on a platform of stringent internal control and pre-approved policies, practices and procedures to deliver sustainable value to its shareholders, while remaining focused on its responsibility to society at large.

The Board is fully committed to high standards of corporate governance, which include embracing the following principles:

- To observe high standards of ethical and moral behaviour;
- To act in the best interests of shareholders;
- To ensure that the Company acts as a good corporate citizen;
- To recognize the legitimate interests of all stakeholders;
- To disclose accurate, adequate and timely information so as to allow stakeholders make informed decisions;

## 2. Board of Directors

The Board of Directors was constituted in accordance with the governing rules and regulations contained in the articles of association and the Companies Act. The Board of Directors of African Banking Corporation owe the Bank duties of care, obedience, and loyalty. The success of the Bank is dependent on the Board ability to provide oversight on the Bank’s management and business strategies and ensure overall safety and soundness for the Bank.

The Board of African Banking Corporation Limited is not just responsible for the company’s financial bottom line, but for the company’s performance in respect of its ESG popularly known as the ‘triple bottom line’. ESG looks beyond the company’s financial performance by taking into account the social and environmental performance of the company.

The Board is responsible for formulating the Banks’ policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder values, are achieved. The Board also retains the overall responsibility for effective control of the Bank and implements corporate governance policies of the Bank.

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the Bank’s Articles of Association and is distributed together with the agenda and board papers to all the Directors beforehand. The Board meets regularly and at least four times annually. During the year, the Board convened and held four ordinary meetings. In accordance with the Bank’s practice, one Board meeting is normally scheduled to coincide with the occasion of the Annual General Meeting.

The Bank’s Secretary is always available to the Board of Directors.

The Board comprises three (3) Independent Non-Executive Directors, one Non-Executive Director and two Executive Directors. The Directors have diverse skills and are drawn from various sectors of the economy. The Chairman of the Board and Chairmen of Board committees are Non-Executive Directors. The names of the Directors who held office in the year and to the date of this report are set out on page 4 and the detailed profile of the directors is as shown below.

# Statement On Corporate Governance (continued)

for the year ended 31 December 2023

## 2. Board of Directors (continued)

The Board of ABC Bank continues to exercise active oversight, working closely with the management team to ensure that the Bank complies with all regulatory, statutory, and ethical standards as a responsible and sustainable business.

The success of the Bank is dependent on the Board ability to provide oversight and ensure overall safety and soundness for the Bank



**Mr. Richard Omwela**  
Independent Non-Executive  
Chairman



**Mr. Ashraf Savani**  
Non-Executive Director



**Mr. Alban Mwendar**  
Independent Non-Executive  
Director



**Mr. Joseph K Muiruri**  
Independent Non-Executive  
Director



**Mr. Shamaz Savani**  
Group Managing Director



**Mr. Sridhar Natarajan**  
Group Chief Executive Officer

# Statement On Corporate Governance (continued)

for the year ended 31 December 2023

## 2. Board of Directors (continued)

### Mr. Richard Omwela

#### Independent Non-Executive Chairman

Appointed to Board: 2000

#### External roles

- Advocate of High Court of Kenya
- Senior Partner, Dentons Hamilton Harrison & Mathews Advocates
- Chairman, WPP Scangroup Limited,
- Chairman, NAS (National Airport Services Ltd),
- Chairman, Monarch Insurance Company Ltd
- Chairman, Nairobi Airport Services Ltd
- Chairman, Octagon Africa Financial Services Ltd
- Over 42 years of experience as Advocate, The High Court of Kenya

#### Previous roles

- Chairman, Kenya Rugby Union (KRU),
- Governor of Rotary International District 9212
- Board Chairman, WPP Scangroup Limited, NAS (National Airport Services Ltd), Monarch

#### Qualifications

- LLB, University of Nairobi
- Diploma in Law (Kenya School of Law)
- Member, Chartered Institute of Secretaries

### Mr. Ashraf Savani

#### Non-Executive Director

Appointed to Board: March 2008

Committee membership: BAC

Committee membership: BRCC

Committee membership: BCC

Committee membership: BNRC

#### Previous roles

- Chairman, ABC Bank Ltd
- Founding, Managing Director, ABC Bank Ltd
- Vice President, Habib Bank A.G. Zurich
- Over 58 years of Banking experience

#### Qualifications

- Bachelor of Commerce
- Diploma in Banking
- Awarded, Life Time Achievement Award in Banking (Think Business)

### Mr. Joseph K Muiruri

#### Independent Non-Executive Director

Appointed to Board: March 2008

Committee Chairman: BAC

Committee Chairman: BRCC

#### Previous roles

- Practitioner, Institute of Certified Public Accountants of Kenya
- Former Partner, Ernst & Young East Africa
- Over 55 years of auditing accounting experience

#### Qualifications

- Fellow, Chartered Association of Certified Accountants (UK)

### Mr. Alban Mwendar

#### Independent Non-Executive Director

Appointed to Board: May 2013

Committee Chairman: BCC

Committee Chairman: BNRC

Committee membership: BAC

#### Previous roles

- Group Human Resources Director at Kenya Airways
- Group HR Director of East African Breweries Ltd, a Diageo subsidiary
- Group HR director at Kenya Commercial Bank
- Head of Human Resources, British American Tobacco (K)
- Vice Chairman – Kenya Institute of Bankers
- Member Board of Governors of Alliance High School
- Assistant Chairman – Institute of HR Management of Kenya
- Over 34 years of experience in HR practice

#### Qualifications

- Member- HRM (Kenya)
- Master of Business Administration (University of Nairobi)
- Bachelor of Education (University of Nairobi)

### Mr. Shamaz Savani

#### Group Managing Director

Appointed to Board: 2006

Committee membership: BNRC

#### Previous roles

- Chief Executive Officer, ABC Bank

#### Qualifications

- Master of Business Administration, University of Surrey (UK)
- Bachelor of Arts (Economics), McMaster University (Canada)
- Bachelor of Commerce (Finance), McMaster University (Canada)
- Board Member, Habitat for Humanity Kenya
- Over 32 years of banking experience

### Mr. Sridhar Natarajan

#### Group Chief Executive Officer

Appointed to Board: 2014

Committee membership: BCC

Committee membership: BNRC

#### Previous roles

- Vice president Credit & Operations, State Bank of India (India)
- President Director (CEO), Bank of ICB (Bumiputera, Indonesia)
- Independent Strategy Consultant
- Over 41 years of banking experience in India, South East Asia, China & Hong Kong

#### Qualifications

- Master of Science, (Chemistry), University of Delhi (India)
- Bachelor of Science (Chemistry), University of Delhi (India)
- Certificate in Strategy & Leadership

# Statement On Corporate Governance (continued)

for the year ended 31 December 2023

## 2. Board of Directors (continued)

Our management committee is made of diverse and seasoned professionals comprising of Group Managing Director, Group Chief Executive Officer and 13 other members in senior management. We take pride in the passion, experience, leadership, professionalism and vision of management and staff at all levels.



**Mr. Shamaz Savani**  
Group Managing Director



**Mr. Sridhar Natarajan**  
Group Chief Executive Officer



**Mr. Peter Kinyanjui**  
General Manager



**Mr. Philip Wambua**  
General Manager, Treasury &  
Financial Institutions



**Mr. Raj Pal Arora**  
Chief Credit Risk Officer



**Ms. Amanda Corline**  
Head of Retail Banking



**Mr. Josiah Muia**  
Head of Corporate Banking



**Ms. Wambui Kaguongo**  
Head of Marketing and Product  
Development



**Ms. Elizabeth Kimani**  
Head of Operations



**Mr. Charles Karuga**  
Head of ICT



**Mr. Boniface Kioko**  
Head of Credit and Legal



**Mr. Chea Ngolo Ndurya**  
Head of Finance and Strategy



**Mr. John Rioba**  
Group Head Risk and Compliance



**Ms. Lucy Wariara**  
Group Head of Human Resources



**Mr. Crispus Maithya**  
Group Head of Internal Audit and  
Investigations

# Statement On Corporate Governance (continued)

for the year ended 31 December 2023

## 2. Board of Directors (continued)

### a) Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in note 33.7 to the financial statements for the year ended 31 December 2023. The Bank advanced loans to Directors and their associated companies as disclosed in Note 33.

### b) Related Party Transactions

There have been no other material significant related party transactions, pecuniary transactions or relationships between the Bank and its Directors or Management except those disclosed in Note 33 to the financial statements for the year ended 31 December 2023.

### c) Board and Director Evaluation

Both peer and self evaluations of the Board members including the Chairman have been done during the year.

## 3. Board Charter

The Bank has a Board Charter which sets out key corporate governance principles adopted by the Board. The roles and responsibilities of the Board as a whole, Chairman, Independent Directors and other Directors are clearly defined therein. The Charter clearly stipulates the role that each party undertakes in ensuring checks and balances in the day-to-day management of the Bank's business and operations.

The Board reviews the Charter from time to time to keep it up to date with changes in regulations, best practice and ensure effectiveness and relevance of the Board.

## 4. Board of Directors roles and responsibilities

The Board is explicitly responsible for the stewardship of the Bank. In discharging its obligations, assumes responsibility in the following areas:

- Retain full and effective control over the Bank, and monitor management in implementing Board plans and strategies;
- Ensure that a comprehensive system of policies and procedures is operative;
- Identify and monitor non-financial aspects relevant to the business;
- Ensure ethical behaviour and compliance with relevant laws and regulations, audit and accounting principles, and the Bank's own governing policies, procedures and Codes of Ethics;
- Strive to act above and beyond the minimum requirements and benchmark performance against international best practices and not only to comply in practice, but be seen to comply;
- Define levels of materiality, reserving specific powers to the Board and delegating other matters with the necessary written authority to management and instituting effective mechanisms that ensure Board responsibility for management performance of its functions;
- Act responsibly towards the Bank's relevant stakeholders; and
- Beware of, and commit to, the underlying principles of good governance.

The Independent Non-Executive Chairman manages the affairs of the Board with a view to ensuring that it functions effectively and meets its obligations and responsibilities. He leads the Board in the execution of its responsibilities to the shareholders, regulators and other stakeholders. He ensures that meetings are conducted efficiently and in accordance with the requirements of applicable laws.

The Executive Directors assume the overall responsibilities for the execution of the Bank's strategies in line with the Board's direction, oversee operations and drive the business and performance towards achieving the Bank's vision and goals. They lead the Senior Management team in the execution of strategic initiatives.

# Statement On Corporate Governance (continued)

for the year ended 31 December 2023

## 4. Board of Directors roles and responsibilities (continued)

The distinction and separation of roles of the Chairman and Executive Directors, with a division of responsibilities, ensures balance of power and authority, such that no one individual has unfettered powers of decision-making.

## 5. Board Committees

The Board has in place four (4) main committees, namely the Board Audit Committee (BAC), the Board Credit Committee (BCC), the Board Nomination and Remuneration Committee (BNRC) and the Board Risk and Compliance Committee (BRCC). To discharge its mandate effectively, the Board delegates its authority to various sub-committees, whose chairpersons report to the Board. These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structure are in place to achieve the Bank's objectives and obligations to its stakeholders.

All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary. The authority for the day to day running of the Bank is delegated to the Group Managing Director.

### a) Board Audit Committee

The Audit Committee is chaired by a Non-Executive Director (Mr. Joseph Muiruri) and meets on a quarterly basis. Other members are two Non-Executive Directors (Mr. Ashraf Savani and Mr. Alban Mwendar). The responsibilities of this committee are the review of financial information and the monitoring of the effectiveness of management information and internal control systems. The Committee receives reports from both external and internal auditors, and also monitors implementation of audit recommendations, on behalf of the Board. In addition, the committee deliberates on the significant findings arising from inspections by the Supervision Department of Central Bank of Kenya.

### b) Board Risk and Compliance Committee

The Risk and Compliance Committee is chaired by a Non-Executive Director (Mr. Joseph Muiruri). The other member is non-executive appointee of the Board Mr. Ashraf Savani. The Committee meets on a quarterly basis and is responsible for ensuring that the systems, procedures and policies of the Bank are properly established, monitored and reported on. The committee is also responsible for monitoring and providing effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting. Additionally, the Committee is responsible for ensuring entrenchment of good corporate governance practices in the Bank.

### c) Board Credit Committee

The Credit Committee is chaired by a Non-Executive Director (Mr. Alban Mwendar) and meets on a quarterly basis or as need arises to review credit policies, facilities granted and other credit related issues that require Board deliberation. Other members are Mr. Ashraf Savani and the Group Chief Executive Officer (Mr. Sridhar Natarajan).

### d) Board Nomination and Remuneration Committee

The Nomination and Remuneration Committee is chaired by a Non-Executive Director (Mr. Alban Mwendar) and meets on a semi-annual basis or as need arises to review human resources related issues that require Board deliberation. Other members are Mr. Ashraf Savani, Mr. Sridhar Natarajan the Group Chief Executive Officer, and the Group Managing Director Mr. Shamaz Savani.

# Statement On Corporate Governance (continued)

for the year ended 31 December 2023

## 6. Management Committees

### a) Executive Committee (EXCO)

The executive committee chaired by the Group Managing Director, is comprised of Unit Heads. This committee has overall responsibility for risk management, monitoring and evaluation of performance and strategy formulation and implementation. The committee advises and assists the Group Managing Director in making decisions that define the direction the Bank takes.

### b) Assets and Liabilities Management Committee (ALCO)

The Group Chief Executive Officer chairs this committee and its membership comprises business heads. The committee meets monthly and is responsible for the monitoring and management of the statement of financial position, including liquidity risk, maturity risk, interest rate risk, and exchange rate risk, compliance with statutory requirements governing liquidity, cash ratio and foreign exchange exposure, investment policies and the setting of interest rates.

### c) Other Committees

Other management support structures revolve around committees set up to support the Group Managing Director in the day-to-day management of the Bank and the Group.

These include the Credit Committee (CC), the Non-Performing Loans Committee (NPLC), Management Committee (MANCO), Purchase and Tendering Committee (PTC), Health and Safety Committee (HSC) and the Human Resources Committee (HRC). The CC meets at least weekly to review credit applications, pending disbursements and credit risk. The other committees meet at least monthly.

## 7. Risk management and internal control

Management, in consultation with the Board Committees, is responsible for the Bank's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the Bank's system of internal control and for reviewing its effectiveness. The Bank has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by the Risk & Compliance department. This process is also reviewed by the Internal Auditor.

The Bank has in place controls and a Balanced Scorecard tool which include, but are not limited to, an annual strategic planning and budgeting process, a regular review of strategic initiatives, a well-defined organizational structure which is kept under regular review by the Board, clearly laid down authority levels, and a review of quarterly financial and operating information by Management and the Board.

As elucidated in the above, the Bank ensures that sound risk management activities are performed by respective teams or officials in all stages of product development, service delivery and maintenance lifecycle, in every area of its business operations, and in the two markets in which it operates.

## 8. Code of ethics

The Bank conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its intermediaries, employees and other stakeholders are conducted at arm's length, with integrity and transparency.

## 9. Promotion of sustainability

Sustainability is defined as conducting business responsibly and ethically by factoring social, economic and environmental consideration into the Bank's decision-making process for long term business success which in turn contributes to the socioeconomic development of the communities in which it operates. Therefore, the Board acknowledges that a sustainable investment approach positively impacts on the value of investments and is vital to

# Statement On Corporate Governance (continued)

for the year ended 31 December 2023

## 9. Promotion of sustainability (continued)

the interests of long-term investors.

The Board further recognizes that the Bank's ability to grow affects its ability to make business decisions that give credibility to their sense of economic, social and environmental responsibilities by which its stakeholders and society can hold them accountable. Therefore, environment, social and governance issues are of utmost importance in the Board's decision making in order to remain a responsible corporate citizen.

## 10. Responsibility for staff welfare and training

As part of its policy, the Bank recognizes the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for its entire staff. The Bank assists its staff to undertake continuous professional and development training programmes to fulfill their potential. This process is appropriately managed to align staff development with the Bank's strategic and business goals and objectives and is reinforced with appropriate remuneration and incentive systems.

## 11. Shareholding

The composition of shareholders and their individual holdings as at 31 December 2023 was in full compliance with the provisions of the Banking Act and Central Bank of Kenya Prudential Guidelines. There was no change in the shareholding structure in 2023.

## 12. Board and management committee meetings attendance

The Board meets quarterly for scheduled meetings to review the Bank and Group performance against business plans as well as to formulate and implement strategy and on other occasions to deal with any issue that requires attention between the quarterly meetings. During the year, the Board held 4 ordinary meetings. Details of attendance for each member of the Board are as below.

	Director	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total Board meetings attended
1	Ashraf Savani	√	√	√	√	100%
2	Richard Omwela	√	√	√	√	100%
3	Joseph Muiruri	√	√	√	×	75%
4	Alban Mwendar	√	√	√	√	100%
5	Shamaz Savani	√	√	√	√	100%
6	Sridhar Natarajan	√	√	√	√	100%

√ Attended

× Not attended

The Executive Committee and ALCO convened each month and held twelve meetings each whereas the Board Audit Committee, the Board Credit Committee, the Board Nomination and Remuneration Committee and the Board Risk and Compliance Committee convened and held four meetings each. All the meetings convened had sufficient quorum with all the board members attending more than 75% of the meetings held as required by Central Bank of Kenya (CBK) prudential Guidelines. As part of corporate governance, board assessments are performed annually as per the regulator's requirements.

## 13. Whistle blowing policy

The Group has put in place a whistle blowing policy in conformance with the Kenyan Public Interest Disclosure. The policy is meant to encourage employees and others who have serious concerns about any aspect of the Bank's work to come forward and voice the concerns. Employees are often the first to realize that there may be something seriously

# Statement On Corporate Governance (continued)

for the year ended 31 December 2023

## 13. Whistle blowing policy(continued)

wrong within the Bank. ‘Whistle blowing’ is viewed by the Bank as a positive act that can make a valuable contribution to the Bank’s efficiency and long-term success. It is not disloyal to colleagues or the Bank to speak up. The policy applies to employees of the Group as well as staff of agency of the Group, consultants and contractors, irrespective of their location, function, grade or standing (‘employees’).

Every employee is responsible for reporting any conduct through their reporting lines within the Group. Employees are free to report any such matters as: policy violations; fraud and corruption; criminal offences; failure to comply with a legal obligation; corporate negligence; malpractice; crime; threats to people's health and safety; threats to the environment; and threat to health and safety of employees including service providers.

The reporting (anonymously, if desired) of such conduct can be done to the Board Risk and Compliance Committee Chairman, Group Head Risk and Compliance and Head of Audit using a dedicated telephone number/‘whistle blowing hotline’ and e-mail account/website or direct to designated individuals in the Risk and Compliance functions. This process is communicated to all employees on joining the Bank and on a regular basis (at least annually) thereafter.

## 14. Internal audit function

The responsibility of the function is to evaluate the operational effectiveness of the Banks’ systems, processes and procedures and ensuring that the Bank’s internal controls are robust and effective in managing operational and compliance risks. The audit exercise is risk based and is supported by robust audit software.

In order to ensure effectiveness of the team, the team undergoes periodic training and development in areas such as Risk Based Internal Auditing Training; Internal Auditors Seminar- Risk based Audits (by ICPAK); and Modern audit techniques; IT/Information System Audit training & workshops; and Root Cause Analysis training as well as internal training.

## 15. External auditors

Grant Thornton LLP., Certified Public Accountants (K), continues in office in accordance with the company's Article of Association and Section 719 of the Companies Act, 2015. The Directors monitors the effectiveness, objectivity, and independence of the auditors. The Directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

The appointment and remuneration of the Auditor is decided and approved by the Board. The Auditor conducts both Interim and Annual Audit review of the Bank’s financial system and controls among other audit procedures in order to express an opinion on the truth and fairness of the Bank’s financial statements. Over the years of engagement Auditors have expressed unqualified opinion. The Audit for the financial year 2023 was concluded in March 2024..

## 16. Compliance

The Bank operates within the requirements of the Banking Act (Cap 488), among other Acts, and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the Group prepares its financial statements in accordance with the requirements of International Financial Reporting Standards.

# Statement On Corporate Governance (continued)

for the year ended 31 December 2023

## 17. Disclosure of non-financial risk management

### 17.1 Strategic risk

Strategic risk is the potential for loss arising from ineffective business strategies, improper implementation of strategies, sudden unexpected changes in the Group's environment, or from lack of adequate responsiveness to changes in the business environment.

The Group faces several strategic risks from its environment which include:

- Macro-economic changes.
- Competition from the financial industry and organisations providing similar services.
- Technological changes.
- Key legislative and regulatory changes.
- Major political events.
- Human capital or social/demographic trends and changes.

#### *Who manages strategic risk*

The Board of Directors is responsible for the overall generation and implementation of the Group's strategy for purposes of enhancing shareholders' value. It has however delegated the implementation aspects to the Group Managing Director, the Group Chief Executive Officer and the Senior Management team who execute strategy.

The Board of Directors, with support from the Group Managing Director, the Group Chief Executive Officer and Senior Management, has developed a five-year strategy that is implemented and reviewed in annual strategic cycles to take advantage of emerging opportunities and cater for the changes in the environment that pose risk.

#### *How we manage strategic risk*

The Group Managing Director supported by the Group Chief Executive Officer and Senior Management executes the approved strategic objectives on a day-to-day basis and actively monitors business performance against these objectives through periodic reviews. The business carries out business performance reviews periodically but at a minimum on a monthly basis against pre-determined milestones and key performance indicators. The reviews are reported to the Board of Directors for information and advice, or action where significant deviations occur. These reports include identifying the key risks faced by the Group and how they are being managed.

The Group Managing Director co-ordinates an annual strategic planning process for Senior Management intended to align individual business strategies to overall enterprise level strategies as approved by the Board of Directors. They include a comprehensive review and evaluation of the business strategies, competitive positioning, financial performance, initiatives of strategic executions, and key business risks. The frequency of strategic reviews depends on the risk profile and size of the business / function.

Each business unit head is responsible for directing strategies in their respective units and ensure such strategies are aligned to the overall strategy of the Group. They are also responsible for monitoring, managing and reporting on the effectiveness and risks of their business' strategic objectives, and the progress they have made towards achieving these. They oversee the direction and trends of significant current and emerging risks related to their business units and mitigating actions are taken where appropriate. The Group's financial and non-financial performance, including its key risks, are reported to the Board of Directors on a quarterly basis for review and action, where necessary.

# Statement On Corporate Governance (continued)

for the year ended 31 December 2023

## 17. Disclosure of non-financial risk management (continued)

### 17.2 Operational risk

Operational risk is the potential for loss arising from inadequate or failed processes, systems, people or external events. Operational risk is embedded in all business activities including the practices for managing other risks e.g., credit, market and liquidity risks and arises in the normal course of business. The impact of these risks can result in significant financial loss, reputational harm or regulatory censure and penalties.

The major operational risks faced by the Group include:

- People and related issues such as staff retention, frauds, amongst others.
- Systems, processes, and changes related to the drive to meet our clients' needs.
- Infrastructure related issues such as premises availability, location and structure.

The Operations Committee is tasked with the responsibility of designing and maintaining a formal Group-wide operational risk framework that emphasises a strong risk management and internal control culture throughout the Group.

#### *Who manages operational risk*

The committee meets monthly with a key deliverable of assessing the continued applicability of policies and programs in place to identify, assess, report, monitor, control or mitigate operational risks. This committee reports to the Executive Committee and is assisted by the Management committee (MANCO) in executing its functions.

The Group structure is designed with operational risk in mind. As an example, the group maintains specialised function that manage business continuity, human resources, compliance, administration and procurement, security services and organisational change management. Senior Management in turn reports to the Risk Management Committee on all the key risks detailing corrective action initiatives to address the risks.

#### *How we manage operational risk*

Our operational risk management framework is designed to ensure key risk exposures are proactively managed within acceptable levels. It incorporates best practice and meets regulatory guidelines through:

- i) **Governance and policy:** Management as well as committee reporting and organisational structures emphasise accountability, ownership and effective oversight of each business unit's operational risk exposures. Furthermore, the Board Risk and Compliance Committee and Senior Management's expectations are set out via enterprise-wide policies.
- ii) **Risk and control self assessment:** Through quarterly comprehensive assessments of our key operational risk exposures and internal control environments, Senior Management is able to evaluate its effectiveness and implement appropriate additional corrective actions where needed, to offset or reduce unacceptable risks.
- iii) **Operational risk event monitoring:** Our policies require that internal and industry-wide operational risk events are identified, tracked, and reported to the right levels to ensure they are analysed appropriately and corrective action taken in a timely manner.
- iv) **Risk reporting:** Significant operational risk issues together with measures to address them are tracked, assessed and reported to Senior Management and the Board of Directors to ensure accountability is maintained over current and emerging risks.
- v) **Insurance:** A comprehensive portfolio of insurance and other risk mitigating arrangements are maintained with the type and level of insurance coverage continually assessed to ensure both risk tolerance and statutory requirements are met. This includes identifying opportunities for transferring our risks to third parties where appropriate.
- vi) **Technology and information:** The key risks here revolve around our reliance on technology and information and their impact on operational availability, integrity and security of our information data and systems/infrastructure. Our risk framework and programs use best practice and include robust threat and vulnerability assessments, as well as security and change management practices.

# Statement On Corporate Governance (continued)

for the year ended 31 December 2023

## 17. Disclosure of non-financial risk management (continued)

### 17.2 Operational risk (continued)

*How we manage operational risk (continued)*

- vii) Financial crime: Safeguarding our customers, employees, assets, information, and preventing plus detecting fraud as well as other forms of financial crime is done through extensive security systems, protocols and practices. This is led by our Security department that carries out regular employee training to ensure compliance with crime prevention policies and practices.
- viii) Outsourcing management: While the benefits of outsourcing arrangements are immense (i.e. access to leading technology, specialised expertise, economies of scale, operational efficiencies, etc.), we note the need to manage the associated risks. This is done through programs that guide outsourcing activities and ensure the level of risk management and Senior Management oversight is appropriate to the size and complexity of the outsourcing arrangements and that the arrangements meet the minimum standards set by the regulator.
- ix) Project management: We have a disciplined project management program to ensure projects are implemented successfully in a planned and systematic manner and are monitored by Senior Management. The projects management office runs this program and the Human Resources Department maintains standards that meet best practice to identify and guide change.
- x) Business continuity management: Business continuity management supports the ability of Senior Management to continue to operate their businesses, and provide customer access to products and services in times of disruptions. This program includes formal crisis management protocols and continuity strategies. All key functions of the Group are regularly tested to confirm their contingency plan designs are able to respond to a broad range of potentially disruptive scenarios.

### 17.3 Reputational risk

Reputational risk is the potential that negative stakeholder impressions or perceptions, whether true or not, regarding the Group's business practices, actions or inactions, will or may cause a decline in its value, brand, liquidity or customer base. It is a resultant effect of all other risks highlighted in this report and therefore cannot be managed in isolation.

Therefore, when all the other risks are managed well, this risk is substantially minimised. The Group's reputation is an invaluable business asset essential for optimising shareholder value, hence it is constantly under threat. Our services and activities, including new ones, ensure the Group's good reputation is always maintained or enhanced.

*Who manages reputational risk*

Ultimate responsibility for this risk rests with the Board of Directors and Senior Management who examine the Group's reputational risk as part of their regular mandate. They are assisted in this aspect by the Marketing and Corporate Communications Department. Their purpose is to ensure that all products, services, and activities meet the Group's reputational risk objectives in line with the Board of Director's approved appetite. Nonetheless, every employee and representative of the Group has a responsibility to contribute positively to our reputation.

Senior Management and the Board of Directors receive periodic reports on the assessment of the Group's reputational risk exposures that arise from its business (including sales and service) activities so as to form a view on associated risks and implement corrective actions.

Every employee and representative of the Group has a responsibility to contribute in a positive way towards our reputation. This is through ensuring ethical practices are always adhered to, interactions with all stakeholders are positive, and we comply with applicable policies, legislation, and regulations. Reputational risk is most effectively managed when every individual works continuously to protect and enhance our reputation.

# Statement On Corporate Governance (continued)

for the year ended 31 December 2023

## 17. Disclosure of non-financial risk management (continued)

### 17.4 Compliance (policy/legal/regulatory) risk

Compliance risk refers to the potential of loss arising from non-compliance with laws, rules, regulations, obligatory practices / standards, contractual agreements, or other legal requirements including the effectiveness of preventing and handling litigation. It is not actively or deliberately pursued in the expectation of a return but occurs in the normal course of our business operations.

The Group meets high standards of compliance with policy, legal and regulatory requirements in all business dealings and transactions.

As a result of high financial business regulation, we are exposed to regulatory and legal risks in virtually all our activities including those from our three main regulators (Central Bank of Kenya/Bank of Uganda and Capital Markets Authority). Failure to comply with regulation not only poses a risk of censure and litigation but may lead to serious reputational risks.

Financial penalties and costs related to litigation may also substantially erode the Group's earnings. Business unit heads have the responsibility and accountability of managing regulatory and legal risks relating to their units on a day-to-day basis with assistance / advice and oversight from Risk and Compliance Departments.

The Risk and Compliance Department, assisted by the Legal Unit, identifies and monitors the key risks and is responsible for ensuring that the day-to-day business controls comply with applicable legislation and are in line with best practice.

Internal and external legal counsel work closely with business units to identify areas of existing and potential regulatory/legal risks and actively manage them to reduce the Group's exposures. Senior Management and the Board Risk and Compliance Committee receive the Risk and Compliance Department's reports on the strength of the Group's Compliance Risk Framework to enable them to determine whether it is under control and where not, tracks significant corrective actions to finality. Additionally, significant exposures under "for or against" litigation are reviewed periodically.

The Board of Directors and Senior Management through the Group's Code of Conduct sets the "tone at the top" for a culture of integrity beginning with concern for what is right (including compliance to policy and the law) in all our business considerations, decisions and actions.

All employees are required to attest to this Code when they join the Group and thereafter periodically, indicating that they have understood it and that they have complied with its provisions. Business unit heads manage day-to-day regulatory and legal risk primarily by implementing appropriate policies, procedures and controls already in place. The Legal & Compliance departments assist them by:

- i) Communicating and advising on regulatory and legal requirements, and emerging compliance obligations to each business unit as required.
- ii) Implementing or assisting with reviews of policies, procedures and training. They do this by independently monitoring and testing for adherence to certain regulatory and legal requirements, as well as the effectiveness of associated key internal controls.
- iii) Tracking, escalating and reporting significant issues and findings to Senior Management and the Board of Directors.
- iv) Liaising with regulators, as appropriate, regarding new or revised legislation, regulatory guidelines or regulatory examinations.

We have developed robust policies, programs and systems designed to manage the Know Your Customer (KYC) and Anti-Money Laundering (AML) risks as envisaged in the Proceeds of Crime & Anti-Money Laundering Act and Regulation (CBK/BOU/CMA).

We have upgraded account opening requirements and customer transaction screening procedures to meet the stringent requirements stipulated therein. Reporting of suspicious and other transactions is done as required by the law and policy standards. We carry out appropriate periodic due diligence on correspondent banking counterparties, and meet

# Statement On Corporate Governance (continued)

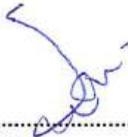
for the year ended 31 December 2023

## 17. Disclosure of non-financial risk management (continued)

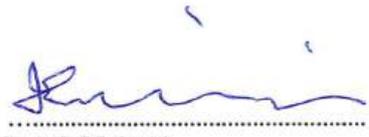
### 17.4 Compliance (policy/legal/regulatory) risk (continued)

KYC / AML obligations to them continuously. All staff are trained when they join the Group and periodically certified as such in line with the law.

The Bank operates within the requirements of the Banking Act (Cap 488), among other Acts, and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the Group prepares its financial statements in accordance with International Financial Reporting Standards.



.....  
**Shamaz Savani**  
Director



.....  
**Joseph Muiruri**  
Director

Date: 28 March 2024

## Statement of Directors' responsibilities

for the year ended 31 December 2023

The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the Directors to ensure that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company and which disclose, with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company, 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 consolidated and separate financial statements, in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015.

The Directors also accept responsibility for:

- 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;
- selecting suitable accounting policies and applying them consistently; and
- making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the company's ability to continue as a going concern, the directors are not aware of any other material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern except those disclosed in note 2.7.

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

### Approval of consolidated and separate financial statements

The consolidated and separate financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on .....<sup>28</sup> March 2024 and signed on its behalf by:

  
.....  
**Sridhar Natarajan**  
Chief Executive Officer

  
.....  
**Joseph Muiruri**  
Director

## Report of the Independent Auditor

*to the members of African Banking Corporation Limited*

### Report on the audit of the consolidated and separate financial statements

#### Opinion

We have audited the accompanying consolidated and separate financial statements of African Banking Corporation Limited (“Bank”) and its subsidiaries (together the “Group”) set out on pages 36 to 115, which comprise the consolidated and separate statements of financial position as at 31 December 2023, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

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

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISA”). 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 and Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional 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 these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material uncertainties relating to going concern

Our opinion is not modified in respect of the below matters based on the assessment provided by management indicating the initiatives and strategies that the Directors have put in place to normalize the Bank’s liquidity and capital requirements.

We draw attention to note 2.7 in the annual report and financial statements which indicates that the Bank recorded negative cash flow used in operating activities at Sh 2,341,537,000 as at 31 December 2023 (2022: Sh. 3,195,342,000). Further, the Bank did not comply with some of key Central Bank of Kenya’s liquidity and capital adequacy ratios. The Bank recorded a liquidity position of 12.4% as at 31 December 2023 which is below the required minimum ratio of 20% of all its total deposit liabilities, matured and short-term liabilities in liquid assets. The Bank was also non-compliant with the single largest borrower limit of 25% of the Bank’s core capital; a total of seven (7) loans and advances to customers were above the required limit.

In addition, the Bank was non-compliant to large exposure requirement as the amount to top borrowers stood at 8 times of the Bank’s core capital. The prudential guidelines requires that the largest exposures should not exceed 5 times of the core capital.

The Bank reported 20% of its gross loans and advances to customers as non-performing loans. Additionally, as at 31 December 2023, the Bank recorded outstanding interest receivable of Sh 4,108,341,276 which represents 14% of the total gross loan book of Sh. 30,115,342,092 which relates to loans which have had consistent extension of moratorium tying up the Bank’s working capital.

These conditions, along with other matters set forth in note 2.7 may attract regulatory attention that may restrict some aspects of the bank’s operations thereby affecting its ability to operate as a going concern.

## Report of the Independent Auditor (continued)

*to the members of African Banking Corporation Limited*

### Other information

The Directors are responsible for the other information. The other information comprises corporate information report of the Directors and statement on corporate governance, but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

### Responsibilities of the Directors for the Financial Statements

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

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

The Directors are responsible for overseeing the Bank's and Group's financial reporting process.

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's 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.

### Auditor's Responsibilities for the Audit of the Consolidated and Separate 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## Report of the Independent Auditor (continued)

to the members of African Banking Corporation Limited

### Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguard.

### Report on other matters prescribed by the Kenyan Companies Act, 2015

In our opinion, the information given in the report of the directors on pages 16 - 17 is consistent with the consolidated and bank financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Dipesh Shah, practicing certificate No.1729.

 Grant Thornton LLP  
Certified Public Accountants

For and on Behalf of Grant Thornton LLP  
Certified Public Accountants (Kenya)  
Nairobi

Date: 28 March 2024

A/054/1223/AUD

# Consolidated and bank statements of profit and loss and other comprehensive income

for the year ended 31 December 2023

	Note(s)	Group		Bank	
		2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Interest income	7	4,752,541	3,686,945	4,520,546	3,487,823
Interest expense	8	(2,773,293)	(2,150,946)	(2,764,572)	(2,142,097)
<b>Net interest income</b>		<b>1,979,248</b>	<b>1,535,999</b>	<b>1,755,974</b>	<b>1,345,726</b>
Fees and commission income	9.1	192,834	383,632	129,559	329,932
Foreign exchange trading income	9.2	192,340	320,299	185,072	307,803
Other operating income	9.3	45,039	37,102	3,155	4,402
<b>Operating income</b>		<b>2,409,461</b>	<b>2,277,032</b>	<b>2,073,760</b>	<b>1,987,863</b>
Impairment charge on loans & advances and other financial assets	10.1	(347,241)	(301,879)	(299,917)	(285,555)
Operating expenses	10.2	(1,861,852)	(1,735,156)	(1,575,362)	(1,500,062)
<b>Total operating expenses</b>		<b>(2,209,093)</b>	<b>(2,037,035)</b>	<b>(1,875,279)</b>	<b>(1,785,617)</b>
Profit before tax		200,368	239,997	198,481	202,246
Taxation credit	12	35,723	22,239	50,172	33,498
<b>Profit for the year</b>		<b>236,091</b>	<b>262,236</b>	<b>248,653</b>	<b>235,744</b>
<b>Other comprehensive (loss)/income</b>					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Net fair value loss on Government securities designated as at FVTOCI	21	(8,242)	(5,764)	(8,242)	(6,492)
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Net fair value loss on investment in NSE designated as at FVTOCI	21	(7,017)	(11,732)	-	-
Exchange differences on translating foreign operations		233,025	35,610	-	-
<b>Other comprehensive income/(loss)</b>		<b>217,766</b>	<b>18,114</b>	<b>(8,242)</b>	<b>(6,492)</b>
<b>Total comprehensive income for the year</b>		<b>453,857</b>	<b>280,350</b>	<b>240,411</b>	<b>229,252</b>
<b>Profit attributable to:</b>					
Equity holders of the parent company		241,975	251,597	248,653	235,744
Non-controlling interests		(5,884)	10,639	-	-
		<b>236,091</b>	<b>262,236</b>	<b>248,653</b>	<b>235,744</b>
<b>Other comprehensive (loss)/income</b>					
Equity holders of the parent company		129,585	5,098	(8,242)	(6,492)
Non-controlling interests		88,181	13,016	-	-
		<b>217,766</b>	<b>18,114</b>	<b>(8,242)</b>	<b>(6,492)</b>
<b>Total comprehensive income</b>					
<b>Attributable to:</b>					
Equity holders of the parent company		371,560	256,695	240,411	229,252
Non-controlling interests		82,297	23,655	-	-
		<b>453,857</b>	<b>280,350</b>	<b>240,411</b>	<b>229,252</b>
<b>Earnings per share – Basic &amp; Diluted</b>	13	<b>2.30</b>	2.40	<b>2.37</b>	2.25

# Consolidated and bank statements of financial position

As at 31 December 2023

	Note(s)	Group		Bank	
		2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
<b>Assets</b>					
Cash and balances with Central Bank of Kenya	14	2,401,396	2,710,816	2,298,923	2,629,809
Deposits and balances due from banking institutions	15	1,799,910	1,749,573	1,147,236	1,188,609
Government securities	16	7,867,360	7,624,988	7,460,507	7,319,991
Loans and receivables to customers	17	29,451,766	24,112,546	28,493,545	23,397,530
Corporate tax recoverable	12	68,657	80,968	48,710	64,566
Other assets	18	314,733	322,212	237,040	258,080
Due from related parties	33	-	-	149,292	217,850
Property and equipment	19	436,915	437,732	400,270	406,135
Right of use assets	20	175,480	171,941	120,697	157,135
Intangible assets	21	109,245	121,510	55,214	67,470
Equity investment classified at fair value through other comprehensive income (FVOCI)	21	42,140	47,600	-	-
Investment in subsidiaries	22	-	-	890,935	890,935
Goodwill	23	660	660	-	-
Deferred tax asset	27	473,580	367,825	473,580	367,825
<b>Total assets</b>		<b>43,141,842</b>	<b>37,748,371</b>	<b>41,775,949</b>	<b>36,965,935</b>
<b>Liabilities</b>					
Balances due to Central Bank of Kenya	24	2,605,610	1,499,173	2,605,610	1,499,173
Deposits and balances due to banking institutions	24	1,495,453	429,205	1,495,453	537,187
Customer deposits	25	33,528,637	30,812,603	32,555,184	29,903,802
Due to related parties	33	-	-	261,075	375,349
Other liabilities	26	451,111	423,865	203,052	223,230
Lease liability	20	187,505	192,901	133,594	173,757
Long term loan	28	132,816	104,683	132,816	104,683
Deferred tax liability	27	1,060	148	-	-
<b>Total liabilities</b>		<b>38,402,192</b>	<b>33,462,578</b>	<b>37,386,784</b>	<b>32,817,181</b>
<b>Shareholders' funds</b>					
Share capital	29	1,050,000	1,050,000	1,050,000	1,050,000
Retained earnings		2,597,405	2,285,560	2,637,354	2,317,166
Fair value reserve		(306,227)	(202,787)	(16,601)	(8,359)
Statutory reserve	29	730,472	800,342	718,412	789,947
Translation reserve		264,821	31,796	-	-
Attributable to equity holders of the parent company		4,336,471	3,964,911	4,389,165	4,148,754
Non-controlling interests	30	403,179	320,882	-	-
<b>Total shareholders' funds</b>		<b>4,739,650</b>	<b>4,285,793</b>	<b>4,389,165</b>	<b>4,148,754</b>
<b>Total liabilities and shareholders' funds</b>		<b>43,141,842</b>	<b>37,748,371</b>	<b>41,775,949</b>	<b>36,965,935</b>

The financial statements on pages 36 to 115 were approved and authorised for issue by the board of directors on 28 March 2024 and were signed on its behalf by:

Ashraf Savani  
Director

Sridhar Natarajan  
Chief Executive Officer

Joseph Muiruri  
Director:

Francisca Wambua  
Company Secretary

# Consolidated statement of changes in equity

for the year ended 31 December 2023

	Note(s)	Share Capital Sh'000	Retained earnings Sh'000	Fair value reserve Sh'000	Statutory reserve Sh'000	Translation reserve Sh'000	Total attributable to equity holders of the parent Sh'000	Non controlling interests Sh'000	Total equity Sh'000
At 01 January 2022		1,050,000	2,039,645	(172,275)	794,660	(3,814)	3,708,216	297,227	4,005,443
Total comprehensive income		-	251,597	(30,512)	-	35,610	256,695	23,655	280,350
Transfer from statutory reserve	29	-	(5,682)	-	5,682	-	-	-	-
<b>At 31 December 2022</b>		<b>1,050,000</b>	<b>2,285,560</b>	<b>(202,787)</b>	<b>800,342</b>	<b>31,796</b>	<b>3,964,911</b>	<b>320,882</b>	<b>4,285,793</b>
At 01 January 2023		1,050,000	2,285,560	(202,787)	800,342	31,796	3,964,911	320,882	4,285,793
Total comprehensive income		-	241,975	(103,440)	-	233,025	371,560	82,297	453,857
Transfer from statutory reserve	29	-	69,870	-	(69,870)	-	-	-	-
<b>At 31 December 2023</b>		<b>1,050,000</b>	<b>2,597,405</b>	<b>(306,227)</b>	<b>730,472</b>	<b>264,821</b>	<b>4,336,471</b>	<b>403,179</b>	<b>4,739,650</b>

# Bank statement of changes in equity

for the year ended 31 December 2023

	Note(s)	Share capital Sh'000	Retained earnings Sh'000	Fair value reserve Sh'000	Statutory reserve Sh'000	Total equity Sh'000
<b>At 01 January 2022</b>		<b>1,050,000</b>	2,076,709	(1,867)	794,660	3,919,502
Total comprehensive income		-	235,744	(6,492)	-	229,252
Transfer from statutory reserve		-	4,713	-	(4,713)	-
<b>At 31 December 2022</b>		<b>1,050,000</b>	<b>2,317,166</b>	<b>(8,359)</b>	<b>789,947</b>	<b>4,148,754</b>
<b>At 01 January 2023</b>		<b>1,050,000</b>	2,317,166	(8,359)	789,947	4,148,754
Total comprehensive income for the year		-	248,653	(8,242)	-	240,411
Transfer from statutory reserve	29	-	71,535	-	(71,535)	-
<b>31 December 2023</b>		<b>1,050,000</b>	<b>2,637,354</b>	<b>(16,601)</b>	<b>718,412</b>	<b>4,389,165</b>

# Consolidated and bank statements of cash flows

for the year ended 31 December 2023

	Note(s)	Group		Bank	
		2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
<b>Cash flows generated used in operating activities</b>					
Cash generated from operations	31	(2,367,339)	(2,601,515)	(2,287,239)	(3,046,554)
Interest paid		(15,442)	(22,603)	(14,571)	(19,604)
Taxation paid	12	(55,645)	(133,657)	(39,727)	(129,184)
<b>Net cash generated (used in)/from operating activities</b>		<b>(2,438,426)</b>	<b>(2,757,775)</b>	<b>(2,341,537)</b>	<b>(3,195,342)</b>
<b>Cash flows (used in)/generated from investing activities</b>					
Purchase of property and equipment	19	(52,259)	(83,121)	(38,745)	(71,802)
Purchase of intangible assets	21	(3,572)	(4,917)	(2,250)	(4,882)
Proceeds from disposal of property	19	7,866	-	-	-
<b>Net cash used in investing activities</b>		<b>(47,965)</b>	<b>(88,038)</b>	<b>(40,995)</b>	<b>(76,684)</b>
<b>Cash flows used in financing activities</b>					
Repayment of loans	20.3	(72,161)	(73,717)	(54,430)	(52,129)
<b>Net cash used in financing activities</b>		<b>(72,161)</b>	<b>(73,717)</b>	<b>(54,430)</b>	<b>(52,129)</b>
<b>Decrease in cash and cash equivalents</b>		<b>(2,558,552)</b>	<b>(2,919,530)</b>	<b>(2,436,962)</b>	<b>(3,324,155)</b>
Cash and cash equivalents at 1 January		2,746,806	5,618,031	1,782,058	5,106,213
<b>Exchange differences due to translation</b>		<b>225,458</b>	<b>48,305</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents as at 31 December</b>	<b>31</b>	<b>413,712</b>	<b>2,746,806</b>	<b>(654,904)</b>	<b>1,782,058</b>

# Summary of accounting policies

for the year ended 31 December 2023

## 1. General information

African Banking Corporation Limited ('the company' "and/or" 'Bank') and its subsidiaries (together, 'the group'), comprising African Banking Corporation Limited which is a commercial bank incorporated in Kenya regulated by the Banking Act (Cap 488) and the Central Bank of Kenya (CBK).

African Banking Corporation Limited is the ultimate holding company of all subsidiaries namely; ABC Financial Services Limited which is an investment and holding company of ABC Capital Limited, a stock-broking and investment company licensed by the Capital Markets Authority (CMA), ABC Nominee Limited, ABC Insurance Brokers Limited and ABC Capital Bank Uganda Limited, a commercial bank incorporated and operating in Uganda and regulated under the Financial Institutions Act, 2004 Laws of Uganda (as amended 2016) and Bank of Uganda (BOU).

The main principal activity for the group is banking, insurance brokerage, stock brokerage and other financial related services. The address of its registered office and principal place of business are disclosed in page 5. ABC financial services and ABC Nominee are both non-trading companies.

## 2. Basis of preparation

### 2.1. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Kenyan Companies Act, 2015 and the Banking Act (Cap 488).

For the Kenyan 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 equivalent to the statement of profit and loss and other comprehensive income.

### 2.2. Basis of measurement

The Consolidated and Bank financial statements have been prepared on the historical cost basis of accounting as modified by the revaluation of certain assets and financial instruments which are accounted for at fair value.

### 2.3. Basis of consolidation

#### *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in profit or loss. Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS either in profit or loss or as a change to other comprehensive income.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 2. Basis of preparation (continued)

### 2.3. Basis of consolidation (continued)

#### *Subsidiaries (continued)*

Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiaries acquired in the case of a bargain purchase, the difference is recognised directly through profit or loss.

Inter-company transactions, balances and recognised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries, ABC Capital Limited, ABC Insurance Brokers Limited and ABC Capital Bank Uganda Limited all having financial year end of 31 December 2023.

The results of the subsidiaries have been consolidated with the bank numbers in line with IFRS 10.

#### *Changes in ownership interests in subsidiaries without change of control*

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

#### *Loss of control of subsidiaries*

When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

### 2.4. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain. Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 2. Basis of preparation (continued)

### 2.4. Business combinations (continued)

acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another standards.

### 2.5. Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the group's share of the net assets of the acquired subsidiaries as at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of the goodwill allocated to the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

### 2.6. Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of ABC Capital Bank Uganda Limited is Ugandan Shillings (UGX) while that of ABC Nominee Limited, ABC Insurance Brokers and ABC Capital Limited is Kenyan shillings (Sh). Assets and liabilities of ABC Capital Bank Uganda Limited are translated at the closing rate of the reporting period. Its income and expenses are translated at the average exchange rates in the reporting year. Resulting gains or losses are dealt with in the profit and loss. The consolidated and bank financial statements are presented in Kenyan Shillings currency units (Sh), which is the Group's functional and presentation currency.

### 2.7. Assessment of regulatory guidelines compliance

The Bank recorded a negative cash flow used in its operating activities at Sh 2,341,537,000 as at 31 December 2023 (2022: Sh 3,195,342,000) given the high demand for loans by customers against their own deposits especially those with foreign currency denominated deposit accounts while seeking alternative investment opportunities especially high interest yielding government securities. The Bank was also not in compliance with some of Central Bank of Kenya liquidity and capital adequacy ratios as at 31 December 2023 as highlighted below;

- As per the requirements of Section 19 of the Banking Act and CBK prudential guideline CBK/PG/05 – Liquidity Management, the Bank is supposed to maintain a minimum liquidity ratio of 20% of all its total deposit liabilities, matured and short-term liabilities in liquid assets. However, our liquidity position stood at 12.4% as at 31 December 2023, which was below the required minimum ratio of 20%.
- Section 10 of the Banking Act on single borrower limits, and as guided by CBK/PG/07, on prohibited business, an institution shall not grant to any person or permit to be outstanding any advance, credit facility or give any financial guarantee or incur any other liability on behalf of any person, so that the total value of the advances, credit facilities, financial guarantees and other liabilities in respect of that person at any time exceeds 25% of its core capital. We have a total of 7 loan customers each with an exposure of more than 25% of the Bank's core capital.
- As guided by CBK/PG/07 part 3.3 on large exposures, the aggregate credit facilities to all large exposures at any one time shall not exceed 5 times (500%) of the institution's core capital. The amount to top borrowers stood at 8 times of core capital as at year end. The percentage of top 50 loans to the total loan book is currently at 75%, same as prior year.
- Loans on moratorium-significant outstanding interest receivable of Sh 4,108, 341,276 against the gross loan of Sh 30,115,342,092 which represents 14% of the gross loan book. The Bank has loans disbursed to finance several customer projects that are expected to generate adequate cash flows to meet the respective loan repayment terms. Some of the customers' projects are nearing completion and some have been ongoing taking longer time than expected resulting from economic interruption that mostly happened during the COVID-19

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 2. Basis of preparation (continued)

### 2.7. Assessment of regulatory guidelines compliance (continued)

lockdown and now the supply chain disruption occasioned by the Russian -Ukraine war which has seen prices of commodities such as oil hitting the roof. Due to the foregoing some of the customers have been requesting for moratorium extensions that has seen the tying up of the Bank's working capital. These loans are adequately covered by securities, however in case of default during depressed economy the realizable value of the assets may be below expectation.

- Increased non-performing loans Sh 6,024,031,087 as at 31 December 2023 (2022: Sh 5,074,517,960).

Recognizing the importance of maintaining adequate liquidity and capital buffers, and to enhance our capabilities to support our customers, the Board and management have implemented proactive initiatives to address the above which were occasioned by changes in our operating environment.

We have an ongoing discussion with Trade and Financial Guarantee providers to support Medium Term Loans from potential lender to broad-base our liability book. Furthermore, through our concerted deposits mobilization initiatives, we have successfully secured commitments from both current and prospective deposit customers, including diaspora deposits.

Additionally, we have executed an agreement for equity capital infusion subject to CBK approval. This significant investment underscores the confidence of our investors in the strength and resilience of African Banking Corporation Limited, providing us with the necessary capital to fuel growth, seize opportunities, and navigate challenges in the evolving financial landscape.

The above initiatives will help in bolstering our liquidity position and enhancing financial stability. As we move forward, we remain committed to prudent financial management and strategic decision-making to ensure the continued success and sustainability of our institution.

In view of the above, the directors are of the opinion that the Bank will be able to realize its assets, discharge its liabilities at least for the next twelve (12) months from the date of these financial statements and have therefore prepared these financial statements on a going concern basis.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies

### 3.1. Revenue recognition

#### *Interest income and expense*

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated as at fair value through profit and loss, are recognized within interest income and interest expense in profit or loss 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 asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

Interest income includes interest on loans and receivables, placements with other banks and investments in government securities, and is recognised in the period in which it is earned.

#### *Fees and commission income and expense*

In the normal course of business, the Group 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 recognised 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 recognised 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.

### 3.2. Property and equipment

Property, plant and equipment are tangible assets which the company holds for its own use or for rental to others and which are expected to be used for more than one year. An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the company, and the cost of the item can be measured reliably. Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the company and the cost can be measured reliably. Day to day servicing cost is included in profit or loss in the year in which they are incurred. Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost less any accumulated impairment losses.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the company. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term.

Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.2. Property and equipment (continued)

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised. Depreciation is calculated on a pro-rata basis at the following annual rates estimated to write off the cost of property and equipment over their expected useful lives, on the following bases:

Item	Rate	Basis
Buildings	2.0%	Straight line basis
Office renovations	Over the lease period of the building	Straight line basis
Motor vehicles	20%	Straight line basis
Furniture and equipment	12.50%	Reducing balance basis
Computers, copiers and faxes	30%	Reducing balance basis

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

### 3.3. Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred. Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end. Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result, the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Depreciation method	No. of years
Computer software	Straight line	10 years

### 3.4. Other investments

The investment in the Nairobi Securities Exchange is classified as fair value through other comprehensive income (FVTOCI). After initial recognition, the investment is carried at fair value. Gains and losses arising from changes in the fair value of the investments are recognised in other comprehensive income and accumulated in the fair value reserve. The fair value is based on the market price at year end.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.5. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

### 3.6. Offsetting of financial assets

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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 3.7. Taxation

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

#### *Current tax*

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

#### *Deferred tax*

Deferred tax is recognised 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 recognised for all taxable temporary differences. Deferred tax assets are generally recognised 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 utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill 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 realised, 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 tax for the year*

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

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.8. Translation of foreign currencies

#### *Foreign currency transactions*

A foreign currency transaction is recorded, on initial recognition in Shillings, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual report and financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Shillings by applying to the foreign currency amount the exchange rate between the Shillings and the foreign currency at the date of the cash flow.

#### *Investments in subsidiaries*

The results and financial position of a foreign operation are translated into the functional currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each item of profit or loss are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised to other comprehensive income and accumulated as a separate component of equity.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially to other comprehensive income and accumulated in the translation reserve. They are recognised in profit or loss as a reclassification adjustment through to other comprehensive income on disposal of net investment. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation.

The cash flows of a foreign subsidiary are translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

### 3.9. Employee entitlements

Entitlements to annual leave are recognised 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.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.10. Retirement benefits

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

In Kenya the Group 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 Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute.

In Uganda, the Group contributes to the statutory National Social Security Fund (NSSF) on behalf of its employees. This is a defined contribution scheme registered under the NSSF Act. The institution's obligations under the scheme are specific contributions legislated from time to time and are currently limited to 10% of the respective employees' salaries. The institution's contributions are charged to profit or loss in the year in which they relate.

### 3.11. Financial instruments

A financial asset or liability is recognised when the Group becomes party to the contractual provisions of the instrument.

#### 3.11.1. Financial assets

*Classification and measurement (IFRS 9)*

Management determines the appropriate classification of its investments at initial recognition.

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

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so, designated by management. Derivatives are also categorised as held for trading.

##### ii) Financial assets held at amortised cost – Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are recognised when cash is advanced to borrowers. They are categorised as originated loans and carried at amortised cost

##### iii) Financial assets held at amortised cost – Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

##### iv) Financial assets held at fair value through other comprehensive income (FVTOCI)

Financial assets that are not

- a. financial assets at fair value through profit or loss,
- b. loans, advances and receivables, or
- c. financial assets held at amortised cost are classified as available-for-sale held at FVTOCI.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.11. Financial instruments (continued)

#### 3.11.1. Financial assets (continued)

*Classification and measurement (IFRS 9) (continued)*

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets the amount presented on the statement of financial position represent all amounts receivable including interest accruals.

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

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 specifically requires:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at Fair Value Through Other Comprehensive Income (FVTOCI);
- all other debt instruments (e.g., debt instruments managed on a fair value basis, or held for sale and equity investments are subsequently measured at FVTPL).

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

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

*Debt instruments at amortised cost or at FVTOCI*

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

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are Solely Payments of Principal and Interest (SPPI).

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

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.11. Financial instruments (continued)

#### 3.11.1. Financial assets (continued)

*Debt instruments at amortised cost or at FVTOCI (continued)*

introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

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

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

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

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

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

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

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. See note 16.

*Financial assets at FVTPL*

Financial assets at FVTPL are:

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

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.11. Financial instruments (continued)

#### 3.11.1. Financial assets (continued)

*Financial assets at FVTPL (continued)*

These assets are remeasured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

*Reclassifications (IFRS 9)*

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

*Recognition and derecognition*

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is transferred to retained earnings through profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

*Impairment of financial assets (IFRS 9)*

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

- deposits and balances due from banking institutions;
- loans and advances to customers;
- debt investment securities;
- loan commitments issued; and
- financial guarantee contracts issued.

ECLs are required to be measured through a loss allowance at an amount equal to:

- a. 12-month ECL, i.e., lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- b. full lifetime ECL, i.e., lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.11. Financial instruments (continued)

#### 3.11.1. Financial assets (continued)

##### *Impairment of financial assets (IFRS 9) (continued)*

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. The Group's policy is always to measure loss allowances for lease receivables as lifetime ECL.

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

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party. The ECL estimate is presently based on 100% cash conversion factor (CCF) for financial guarantees and letters of credit based on Basel II definition of off-balance sheet items.

The Group measures ECL on an individual asset basis. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original Effective Interest Rate. More information on measurement of ECLs is provided in note 4.

##### *Definition of default (IFRS 9)*

The definition of default (see below) includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

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

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

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

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore, credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.11. Financial instruments (continued)

#### 3.11.1. Financial assets (continued)

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

The Group monitors all financial assets, issued loan commitments, and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition.

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

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised.

In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

See note 4 for more details about forward-looking information.

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

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant thinktanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

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

The PDs used are forward-looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL.

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

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.11. Financial instruments (continued)

#### 3.11.1. Financial assets (continued)

*Significant increase in credit risk (continued)*

significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

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

*Write-off*

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

*Presentation of allowance for ECL in the statement of financial position*

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investment's revaluation reserve;
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

#### 3.11.2. Financial liabilities

Under IFRS 9, fair value changes are generally presented as follows:

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

After initial recognition, the Group measures all financial liabilities including customer deposits other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

### 3.12. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.12. Leases (continued)

#### 3.12.1. The Group as lessee

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group.
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use.
- the Group has the right to direct the use of the identified asset throughout the period of use.

#### *Measurement and recognition of leases*

At the commencement date of a lease, the Group recognizes both:

- a. Right-of-use assets; and
- b. Lease liability

Right-of-use assets at the commencement date is measured at cost. The cost comprises of the amount of initial measurement of the lease liability, any lease payments made at or before the commencement date, initial direct costs incurred by the Group and an estimate for any provision for dismantling, restoration and removing the underlying asset.

After the commencement date, the Group subsequently measures right-of-use asset on a cost model at a cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability.

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group measures lease liability at the commencement date as the present values of the lease payments that are not paid at that date using the Group's incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment of lease modifications specified.

The Group has elected to exempt from recognition short term leases and leases for which the underlying asset is of low value (below USD 5,000 when new). Consequently, the lease payments associated with those leases are recognized as an expense on a straight-line basis over the lease term in the statement of profit and loss. On the statement of financial position, the Group has presented the right-of-use assets and lease liabilities separate from the other assets and liabilities.

Interest expense on the lease liability is presented separately from the depreciation charge of the right-of-use asset in the statement of Profit and Loss. On the statement of cash flows, the Group classified cash payments for the principal portion of the lease liability (within cash flows from financing activities) and cash payments for the interest portion of the lease liability for interest paid (within the cashflows from operating activities).

#### 3.12.2. The Group as lessor

As a lessor the Group classifies its leases as either finance or operating leases. A lease is classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.12. Lessee (continued)

#### 3.12.2. The Group as lessor (continued)

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

### 3.13. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given.

### 3.14. Contingent liabilities

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

### 3.15. Fiduciary activities

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

### 3.16. Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.17. Application of new and revised International Financial Reporting Standards (IFRS)

#### 3.17.1. Relevant new standards and amendments to published standards effective for the year ended 31 December 2023

<i>New and Amendments to standard</i>	<i>Effective for annual periods beginning on or after</i>
International tax reforms – Pillar two model rules: Amendments to IAS 12 <i>Income taxes</i>	01 January 2023
Initial application of IFRS 17 and IFRS 9: <i>Comparative information</i>	01 January 2023
Deferred tax related to assets and liabilities from a single transaction: Amendments to IAS 12 <i>Income taxes</i>	01 January 2023
Disclosure of accounting policies: Amendments to IAS 1 and IFRS <i>Practice statement 2 Disclosure of accounting policies</i>	01 January 2023
Definition of accounting estimates: Amendments to IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	01 January 2023
Classification of liabilities as current or non-current: Amendment to IAS 1 <i>Presentation of Financial Statements</i>	01 January 2023
IFRS 17 <i>Insurance contracts</i>	01 January 2023

#### **International tax reforms – Pillar two model rules: Amendments to IAS 12 *Income taxes***

The amendments incorporate into IAS 12, taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. As an exception, deferred tax assets and liabilities shall not be recognised, nor information about them disclosed related to Pillar Two income taxes. Disclosures about applying this exception to deferred tax are required. Any current tax income or expense related to Pillar Two income taxes is required to be disclosed separately. In addition, where the legislation is enacted or substantively enacted, but not yet in effect, management are required to disclose known or reasonably estimable information of the entity's exposure to Pillar Two taxes arising from that legislation.

The effective date of the amendment is for years beginning on or after January 1, 2023.

The company has adopted the amendment for the first time in the 2023 annual report and financial statements.

The impact of the amendment is not material.

#### **Initial application of IFRS 17 and IFRS 9: *Comparative information***

A narrow-scope amendment to the transition requirements of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 at the same time. The amendment regards financial assets for which comparative information is presented on initial application of IFRS 17 and IFRS 9, but where this information has not been restated for IFRS 9. Under the amendment, an entity is permitted to present comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset before. The option is available on an instrument-by-instrument basis. In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9.

The effective date of the amendment is for years beginning on or after January 1, 2023.

The company has adopted the amendment for the first time in the 2023 annual report and financial statements. The impact of the amendment is not material.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.17. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

#### 3.17.1. Relevant new standards and amendments to published standards effective for the year ended 31 December 2023 (continued)

##### **Deferred tax related to assets and liabilities from a single transaction: Amendments to IAS 12 *Income taxes***

The amendment adds an additional requirement for transactions which will not give rise to the recognition of a deferred tax asset or liability on initial recognition. Previously, deferred tax would not be recognised on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit or loss. The additional requirement provides that the transaction, at the time of the transaction must not give rise to equal taxable and deductible temporary differences.

The effective date of the amendment is for years beginning on or after January 1, 2023.

The company has adopted the amendment for the first time in the 2023 annual report and financial statements.

The impact of the amendment is not material.

##### **Disclosure of accounting policies: Amendments to IAS 1 and IFRS *Practice statement 2 Disclosure of accounting policies***

IAS 1 was amended to require that only material accounting policy information shall be disclosed in the annual report and financial statements. The amendment will not result in changes to measurement or recognition of financial statement items, but management will undergo a review of accounting policies to ensure that only material accounting policy information is disclosed.

The effective date of the amendment is for years beginning on or after January 1, 2023.

The company has adopted the amendment for the first time in the 2023 annual report and financial statements.

The impact of the amendment is not material.

##### **Definition of accounting estimates: Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors***

The definition of accounting estimates was amended so that accounting estimates are now defined as "monetary amounts in annual report and financial statements that are subject to measurement uncertainty."

The effective date of the amendment is for years beginning on or after January 1, 2023.

The company has adopted the amendment for the first time in the 2023 annual report and financial statements.

The impact of the amendment is not material.

##### **Classification of liabilities as current or non-current: Amendment to IAS 1 *Presentation of Financial Statements***

The amendment changes the requirements to classify a liability as current or non-current. If an entity has the right at the end of the reporting period, to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current.

If this right is subject to conditions imposed on the entity, then the right only exists, if, at the end of the reporting period, the entity has complied with those conditions.

In addition, the classification is not affected by the likelihood that the entity will exercise its right to defer

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.17. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

#### 3.17.1. Relevant new standards and amendments to published standards effective for the year ended 31 December 2023 (continued)

##### **Classification of liabilities as current or non-current: Amendment to IAS 1 Presentation of Financial Statements (continued)**

settlement. Therefore, if the right exists, the liability is classified as non-current even if management intends or expects to settle the liability within twelve months of the reporting period. Additional disclosures would be required in such circumstances.

The effective date of the amendment is for years beginning on or after January 1, 2023.

The company has adopted the amendment for the first time in the 2023 annual report and financial statements.

The impact of the amendment is not material.

##### **IFRS 17 Insurance contracts**

The IFRS establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued.

The effective date of the standard is for years beginning on or after January 1, 2023.

The company expects to adopt the standard for the first time in the 2023 annual report and financial statements.

The impact of the standard is not material.

#### 3.17.2. Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2023

<i>New and Amendments to standard</i>	<i>Effective for annual periods beginning on or after</i>
Amendments to IFRS 10 and IAS 28: <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	-
IFRS 16 Leases: <i>Lease liability in a sale and leaseback</i>	01 January 2024
Lack of exchangeability – amendments to IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>	01 January 2025
Supplier finance arrangements - amendment to IAS 7 and IFRS 7	01 January 2024
Non-current liabilities with covenants – amendments to IAS 1 <i>Presentation of Financial Statements</i>	01 January 2024

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

If a parent loses control of a subsidiary which does not contain a business, as a result of a transaction with an associate or joint venture, then the gain or loss on the loss of control is recognised in the parents' profit or loss only to the extent of the unrelated investors' interest in the associate or joint venture. The remaining gain or loss is eliminated against the carrying amount of the investment in the associate or joint venture.

The same treatment is followed for the measurement to fair value of any remaining investment which is itself an associate or joint venture. If the remaining investment is accounted for in terms of IFRS 9, then the measurement to

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.17. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

#### 3.17.2. Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2023 (continued)

##### **Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (continued)**

fair value of that interest is recognised in full in the parents' profit or loss.

The effective date of the amendment is to be determined by the IASB.

The group expects to adopt the amendment for the first time in the 2024 consolidated and separate annual report and financial statements.

It is unlikely that the amendment will have a material impact on the group and bank's annual report and financial statements.

##### **IFRS 16 Leases: Lease liability in a sale and leaseback**

The amendment requires that a seller-lessee in a sale and leaseback transaction, shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

The effective date of the amendment is for years beginning on or after January 1, 2024.

The group expects to adopt the amendment for the first time in the 2024 group and bank's annual report and financial statements. It is unlikely that the amendment will have a material impact on the group and bank's annual report and financial statements.

##### **Lack of exchangeability – amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates**

The amendments apply to currencies which are not exchangeable. The definition of exchangeable is provided as being when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. The amendments require an entity to estimate the spot exchange rate at measurement date when a currency is not exchangeable into another currency. Additional disclosures are also required to enable users of financial statements to understand the impact of the non-exchangeability on financial performance, financial position and cash flow.

The effective date of the amendment is for years beginning on or after January 1, 2025.

The company expects to adopt the amendment for the first time in the 2025 consolidated and separate annual report and financial statements.

It is unlikely that the amendment will have a material impact on the company's annual report and financial statements.

##### **Supplier finance arrangements - amendment to IAS 7 and IFRS 7**

The amendment applies to the classification of liabilities with loan covenants as current or non-current. If an entity has the right to defer settlement of a liability for at least twelve months after the reporting period, but subject to conditions, then the timing of the required conditions impacts whether the entity has a right to defer settlement. If the conditions must be complied with at or before the reporting date, then they affect whether the rights to defer settlement exists at reporting date. However, if the entity is only required to comply with the conditions after the reporting period, then the conditions do not affect whether the right to defer settlement exists at reporting date. If an

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 3. Significant accounting policies (continued)

### 3.17. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

#### 3.17.2. Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2023 (continued)

##### **Supplier finance arrangements - amendment to IAS 7 and IFRS 7 (continued)**

entity classifies a liability as non-current when the conditions are only required to be met after the reporting period, then additional disclosures are required to enable the users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period.

The effective date of the amendment is for years beginning on or after January 1, 2024.

The company expects to adopt the amendment for the first time in the 2024 consolidated and separate annual report and financial statements.

It is unlikely that the amendment will have a material impact on the company's annual report and financial statements

### 3.18. Early adoption of standards

The group did not early-adopt any new or amended standards in the period.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management

### 4.1. Risk management framework

The Board Risk and Compliance and the Board Audit Committees are responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. 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 Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

- Credit risk
- Liquidity risk
- Market risk
- Climate – related risk

### 4.2. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and receivables to customers and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

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

#### Management of credit risk

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 group and 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, 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).
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, and product types. Regular reports are provided to Credit 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.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.2. Credit risk (continued)

#### Management of credit risk (continued)

- *Developing and maintaining the Group's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risk. 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 or committee as appropriate. Risk grades are subject to regular reviews by Group credit committee.

#### Maximum exposure to credit risk before collateral held

The group 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 Group's management reviews information on significant amounts. The group'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 and Bank of Uganda is limited because the counter parties are banks, the governments and corporations with high credit ratings.

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

	Note	Group		Bank	
		2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Cash and balances with Central Banks	14	2,401,396	2,710,816	2,298,923	2,629,809
Deposits due from banking institutions	15	1,799,910	1,749,573	1,147,236	1,188,609
Government securities	16	7,867,360	7,624,988	7,460,507	7,319,991
Loans and receivables	17	29,451,766	24,112,546	28,493,545	23,397,530
		41,520,432	36,197,923	39,400,211	34,535,939

#### Loans and advances to customers at amortised cost – gross carrying amount

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included below.

Loans and advances to customers at amortised cost (Group)	Year ended 2023				Year ended 2022
	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000	Total Sh'000
Normal	23,296,464	-	-	23,296,464	18,759,965
Watch	-	1,718,189	-	1,718,189	1,640,143
Substandard	-	-	1,901,880	1,901,880	1,555,136
Doubtful	-	-	3,975,130	3,975,130	3,399,525
Loss	-	-	194,328	194,328	182,786
<b>Total gross carrying amount</b>	<b>23,296,464</b>	<b>1,718,189</b>	<b>6,071,338</b>	<b>31,085,991</b>	<b>25,537,555</b>
Loss allowance	(199,543)	(78,564)	(1,356,118)	(1,634,225)	(1,425,009)
<b>Carrying amount</b>	<b>23,096,921</b>	<b>1,639,625</b>	<b>4,715,220</b>	<b>29,451,766</b>	<b>24,112,546</b>

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.2. Credit risk (continued)

#### Loans and advances to customers at amortised cost – gross carrying amount (continued)

Loans and advances to customers at amortised cost (Bank)	Year ended 2023				Year ended 2022
	Stage 1	Stage 2	Stage 3	Total	Total
	12-month ECL Sh'000	Life time ECL Sh'000	Lifetime ECL Sh'000	Sh'000	Sh'000
Normal	22,492,876	-	-	22,492,876	18,198,448
Watch	-	1,598,435	-	1,598,435	1,529,770
Substandard	-	-	1,888,335	1,888,335	1,553,055
Doubtful	-	-	3,941,480	3,941,480	3,338,870
Loss	-	-	194,216	194,216	182,786
<b>Total gross carrying amount</b>	<b>22,492,876</b>	<b>1,598,435</b>	<b>6,024,031</b>	<b>30,115,342</b>	<b>24,802,929</b>
Loss allowance	(196,913)	(77,665)	(1,347,219)	(1,621,797)	(1,405,399)
<b>Carrying amount</b>	<b>22,295,963</b>	<b>1,520,770</b>	<b>4,676,812</b>	<b>28,493,545</b>	<b>23,397,530</b>

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

In thousands Kenya Shillings (Group)	2023				2022
	Stage 1	Stage 2	Stage 3	Total	Total
Current	23,159,218	-	-	23,159,218	18,759,965
Overdue < 30 days	137,246	1,718,189	-	1,855,435	1,640,143
Overdue > 30 days	-	-	6,071,338	6,071,338	5,137,447
<b>Total</b>	<b>23,296,464</b>	<b>1,718,189</b>	<b>6,071,338</b>	<b>31,085,991</b>	<b>25,537,555</b>

In thousands Kenya Shillings (Bank)	2023				2022
	Stage 1	Stage 2	Stage 3	Total	Total
Current	22,492,876	-	-	22,492,876	18,198,448
Overdue < 30 days	-	1,598,435	-	1,598,435	1,529,770
Overdue > 30 days	-	-	6,024,031	6,024,031	5,074,711
<b>Total</b>	<b>22,492,876</b>	<b>1,598,435</b>	<b>6,024,031</b>	<b>30,115,342</b>	<b>24,802,929</b>

#### Stage 1 assets (IFRS 9)

Under the IFRS 9 framework, in the Group's estimation of ECL, the accounts which are not overdue in payments are generally considered as low risk and therefore classified under stage 1. An individual provision on the outstanding balances is made and approximated as the 12-month expected credit loss.

During the reporting period, a further assessment on customers to determine those borrowers whose credit risk increased significantly since origination was done. A 12-month ECL was derived for Stage 1 where there was no evidence of significant increase in credit risk.

#### Stage 2 assets (IFRS 9)

Under the IFRS 9 framework, in the Group's estimation of ECL, accounts which are more than 30 days and 60 days

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.2. Credit risk (continued)

#### Loans and advances to customers at amortised cost – gross carrying amount (continued)

##### Stage 2 assets (IFRS 9) (continued)

past due are considered classified as stage 2 assets. An individual provision on the total outstanding balances is made and approximated as the lifetime expected credit loss.

The Group also reviewed the increase in credit risk on customer loans and advances and where there was evidence of significant increase in credit risk customers were transitioned to stage 2 from stage 1 and a computation of Lifetime ECL was done.

##### Stage 3 assets (IFRS 9)

Under the IFRS 9 framework, in the Group's estimation of ECL, the stage 3 assets accounts are those which are above 90 days past due. An individual provision on the total outstanding balances is made and approximated as the lifetime expected credit loss.

#### 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 Group 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. However, the amounts involved are insignificant.

#### Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of expected losses in its loan portfolio. This is sum of 12-month ECL (Stage 1) and Lifetime ECL (Stage 2 and Stage 3).

#### Credit quality analysis- classification of loans and receivables (IFRS 9)

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

##### Type of credit exposure

The table below shows proportion of exposure that is subject to collateral requirements.

Group	Credit exposure Sh'000		Collateral held (FSV) Sh'000	
	2023	2022	2023	2022
Type of collateral held				
Land	13,635,895	13,069,260	25,551,878	25,521,862
Cash	2,251,902	1,454,664	3,012,186	2,777,129
Debentures	4,536,539	4,327,218	9,239,515	10,006,874
Shares/stocks	130,350	414,066	233,470	797,436
Motor vehicles	336,052	298,247	411,961	359,663
Others	10,195,253	5,974,100	18,366,308	10,434,650
	<b>31,085,991</b>	<b>25,537,555</b>	<b>56,815,318</b>	<b>49,897,614</b>

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.2. Credit risk (continued)

*Type of credit exposure (continued)*

Bank	Credit exposure Sh'000		Collateral held (FSV) Sh'000	
	2023	2022	2023	2022
<i>Type of collateral held</i>				
Land	12,805,644	12,406,767	23,245,425	23,717,633
Cash	2,112,581	1,412,739	2,863,179	2,725,683
Debentures	4,536,539	4,327,218	9,239,515	10,006,874
Shares/stocks	130,350	414,066	233,470	797,436
Motor vehicles	334,975	297,283	408,654	358,501
Others	10,195,253	5,944,856	18,366,308	10,404,483
	30,115,342	24,802,929	54,356,551	48,010,610

### Inputs, assumptions and techniques used for estimating impairment

*Significant increase in credit risk*

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

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

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

The Group uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

The Group collects sector wise performance and default information about its credit risk exposures analysed by type of product and borrower. For some portfolios e.g., government securities, information purchased from external credit reference agencies is also used. The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The method of PD parameter estimation is based on the interplay of input variables which include product's risk pricing, customers internal credit rating scores, microeconomic variables which include sectoral GDP and sectoral inflation. The sectoral GDP and sectoral inflation are projected using statistical methodologies.

*Determining whether credit risk has increased significantly*

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the sectorial information. The Group considers credit risk of a particular exposure

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.2. Credit risk (continued)

#### Inputs, assumptions and techniques used for estimating impairment (continued)

*Determining whether credit risk has increased significantly (continued)*

to have increased significantly since initial recognition based on a loan being rated as “watch”.

The Credit Committee reviews the loans periodically and the movement in the probability of default (PD) between reporting periods and initial recognition date of the loan to determine whether there has been a significant increase in credit risk. The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group’s credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on expert judgment and relevant historical experiences.

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

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist.

In these cases, the Group determines a three months probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

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

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

#### *Generating the term structure of PD*

The gross NPLs are projected using the regression coefficients for each of the customer. A regression is run on the gross NPLs against interplay of factors which include sectoral GDP and sectoral inflation for each of the sectors. The Group uses one approach of generating PDs for all the loan portfolios.

#### *Definition of default*

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group;

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.2. Credit risk (continued)

#### Inputs, assumptions and techniques used for estimating impairment (continued)

##### Definition of default (continued)

- overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of Groupruptcy due to the borrower's inability to pay its credit obligations;

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

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

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

##### Write-off policy

The Group 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.

##### Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Group adjusts the forward-looking information into three scenarios: Best, Base and Worst case. Expected value of the three scenarios was incorporated in the ECL computation with each case assigned various probabilities of occurring.

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

Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the senior management. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk are GDP growth which generally incorporates other indicators such as inflation, exchange rates etc. Another importance source of information used is the sector wise or industry wise total loans and advances and non-performing loans and advances as experienced by the Grouping industry. This information is published by the Central Group of Kenya annually. The exposures are classified sector wise and credit losses computed for each sector individually. The economic scenarios used as at 31 December 2023 included the following key indicators for Kenya for the years ending 31 December 2023 to 2027;

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.2. Credit risk (continued)

#### Inputs, assumptions and techniques used for estimating impairment (continued)

*Incorporation of forward-looking information (continued)*

	Scenario	2023a	2024f	2025f	2026f	2027f
GDP Growth rate	Base Case	5.30%*	5.80%	5.88%	6.00%	5.89%
GDP Growth rate	Best Case	5.36%*	6.08%	6.38%	7.79%	7.85%
GDP Growth rate	Worst Case	4.25%*	4.80%	4.88%	4.91%	3.94%
Inflation	Base Case	6.60%	6.65%	7.39%	7.88%	5.43%
Inflation	Best Case	6.60%	4.03%	4.70%	5.20%	2.57%
Inflation	Worst Case	6.60%	9.29%	10.12%	10.49%	8.10%

\*

#### *Measurement of ECL*

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

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

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

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'. For loans secured by retail property, collateral coverage (loan-to-value (LTV)) ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation.

The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitment, EAD is the potential future amount that may be drawn under the contract, which is estimated based on historical observations and forward-looking forecasts. For financial guarantee, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

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

However, for overdrafts facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to

\* expected; a-actual; f-forecast

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.2. Credit risk (continued)

#### Inputs, assumptions and techniques used for estimating impairment (continued)

##### Measurement of ECL (continued)

demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis.

The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take, and that which serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

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

- instrument type;
- collateral type;
- remaining term to maturity;
- industry;

The groupings are subject to regular review to ensure that exposures within a particular Group remain appropriately homogeneous. For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The Group does not have portfolios for which external benchmark information represents a significant input into measurement of ECL.

#### Loss allowance

Loss allowance – Loans and advances to customers at amortised cost (Group)	Stage 1	Stage 2	Stage 3	Total
	12-Month ECL Sh'000	Lifetime ECL Sh'000	Lifetime ECL Sh'000	
Loss allowance as at 31 December 2022	181,038	56,201	1,187,770	1,425,009
Changes in the loss allowance				
- Transfer to stage 1	2,651	898	(3,549)	(0)
- Transfer to stage 2	(937)	(2,993)	3,930	-
- Transfer to stage 3	(8,723)	4,018	4,705	-
New financial assets originated or purchased	19,697	-	-	19,697
Financial assets that have been derecognised	(8,121)	(4,072)	(1,059)	(13,252)
Changes in models/risk parameters	(75,377)	3,198	(4,708)	(76,887)
Other movements	87,933	20,725	166,201	274,859
Translation adjustments	1,382	589	2,828	4,799
<b>Loss allowance as at 31 December 2023</b>	<b>199,543</b>	<b>78,564</b>	<b>1,356,118</b>	<b>1,634,225</b>

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.2. Credit risk (continued)

#### Loss allowance (continued)

Loss allowance – Loans and advances to customers at amortised cost: (Bank)	Stage 1	Stage 2	Stage 3	Total
	12-Month ECL	Life time ECL	Life time ECL	
	Sh'000	Sh'000	Sh'000	
Loss allowance as at 31 December 2022	175,392	53,796	1,176,211	1,405,399
Changes in the loss allowance				
- Transfer to stage 1	21	-	(21)	-
- Transfer to stage 3	(2,632)	-	2,632	-
New financial assets originated or purchased	19,697	-	-	19,697
Financial assets that have been derecognised	(8,121)	(54)	(256)	(8,431)
Changes in models/risk parameters	(75,377)	3,198	(4,708)	(76,887)
Other movements	87,933	20,725	173,361	282,019
<b>Loss allowance as at 31 December 2023</b>	<b>196,913</b>	<b>77,665</b>	<b>1,347,219</b>	<b>1,621,797</b>

#### Gross carrying amount

More information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance, is provided in the table below:

Loans and advances to customers at amortised cost: (Group)	Stage 1	Stage 2	Stage 3	Total
	12-Month ECL	Life time ECL	Life time ECL	
	Sh'000	Sh'000	Sh'000	
Gross carrying amount as at 31 December 2022	18,759,965	1,640,143	5,137,447	25,537,555
Changes in the gross carrying amount				
- Transfer to stage 1	358,027	(9,351)	(348,676)	-
- Transfer to stage 2	(213,682)	(8,280)	221,962	-
- Transfer to stage 3	(48,059)	(11,057)	59,116	-
New financial assets originated or purchased	3,425,474	-	-	3,425,474
Financial assets that have been derecognised	(1,642,978)	8,950	122,336	(1,511,692)
Recoveries	-	-	(119,000)	(119,000)
Other movements	2,189,177	58,283	1,057,127	3,304,587
Changes in models/risk parameters	331,225	12,488	3,768	347,481
Write-offs	(106)	-	(78,092)	(78,198)
Translation adjustments	137,421	27,013	15,350	179,784
<b>Gross carrying amount as at 31 December 2023</b>	<b>23,296,464</b>	<b>1,718,189</b>	<b>6,071,338</b>	<b>31,085,991</b>

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.2. Credit risk (continued)

#### Gross carrying amount (continued)

Loans and advances to customers at amortised cost: (Bank)	Stage 1	Stage 2	Stage 3	Total
	12-Month ECL Sh'000	Life time ECL Sh'000	Life time ECL Sh'000	
Gross carrying amount as at 31 December 2022	18,198,448	1,529,770	5,074,711	24,802,929
Changes in the gross carrying amount				
- Transfer to stage 1	3,444	-	(3,444)	-
- Transfer to stage 3	(11,808)	-	11,808	-
New financial assets originated or purchased	3,425,474	-	-	3,425,474
Financial assets that have been derecognised	(1,642,978)	(2,106)	(936)	(1,646,020)
Recoveries	-	-	(119,000)	(119,000)
Other movements	2,189,177	58,283	1,057,127	3,304,587
Changes in models/risk parameters	331,225	12,488	3,768	347,481
Write-offs	(106)	-	(3)	(109)
<b>Gross carrying amount as at 31 December 2023</b>	<b>22,492,876</b>	<b>1,598,435</b>	<b>6,024,031</b>	<b>30,115,342</b>

#### Collateral held

The Group holds collateral against loans and receivables 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 receivables 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 31 December 2023 (2022: Nil).

Loans and receivables to customers:	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
<b>Against individually impaired</b>				
Property	5,338,323	4,723,971	5,176,741	4,718,491
Other	540,560	480,560	540,560	480,560
<b>Against collectively impaired</b>				
Property	2,061,715	1,529,088	1,999,710	1,442,455
Other	1,275,444	1,265,944	1,275,444	1,265,944
<b>Against past due but not impaired</b>				
Property	1,805,991	1,667,693	1,517,730	1,305,245
Other	549,470	664,638	549,470	664,638
<b>Against neither past due nor impaired</b>				
Property	28,623,556	24,544,520	26,676,637	23,194,854
Other	16,620,259	15,021,200	16,620,259	14,938,423
<b>Total</b>	<b>56,815,318</b>	<b>49,897,614</b>	<b>54,356,551</b>	<b>48,010,610</b>

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.2. Credit risk (continued)

#### Concentrations of risk

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

#### (i) Net loans and advances to customers – Group

	2023 Sh'000	2023 %	2022 Sh'000	2022 %
Manufacturing	1,908,220	6%	1,854,879	8%
Wholesale, retail trade and hotels	11,579,209	39%	9,368,173	39%
Transport and communications	1,441,779	5%	1,309,466	5%
Agriculture	2,396,359	8%	1,946,680	8%
Business service	4,582,249	16%	4,228,763	18%
Building, constructions and real estate	4,161,559	14%	3,202,951	13%
Social, community and personal service	941,966	3%	541,793	2%
Foreign trade	4,356	0%	9,541	0%
Organisations and others	2,436,069	8%	1,650,300	7%
	<b>29,451,766</b>	<b>100%</b>	<b>24,112,546</b>	<b>100%</b>

#### Net loans and advances to customers - Bank

	2023 Sh'000	2023 %	2022 Sh'000	2022 %
Manufacturing	1,859,864	7%	1,845,120	8%
Wholesale, retail trade and hotels	11,562,759	41%	9,357,941	40%
Transport and communications	1,061,967	4%	1,005,570	4%
Agriculture	2,343,509	8%	1,875,865	8%
Business service	4,285,804	15%	4,075,271	17%
Building, constructions and real estate	4,030,740	14%	3,174,476	14%
Social, community and personal service	900,405	3%	537,190	2%
Organisations and others	2,448,497	9%	1,526,097	7%
	<b>28,493,545</b>	<b>100%</b>	<b>23,397,530</b>	<b>100%</b>

#### (ii) Customer deposits - Group

	2023 Sh'000	2023 %	2022 Sh'000	2022 %
Non-profit institutions and individuals	18,787,502	56%	17,784,780	58%
Private enterprises	13,968,661	42%	12,268,545	40%
Insurance companies	350,224	1%	161,064	1%
Others	422,250	1%	598,214	2%
	<b>33,528,637</b>	<b>100%</b>	<b>30,812,603</b>	<b>100%</b>

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.2. Credit risk (continued)

#### Concentrations of risk (continued)

##### Customer deposits - **Bank**

	2023 Sh'000	2023 %	2022 Sh'000	2022 %
Non-profit institutions and individuals	18,162,737	56%	17,333,222	58%
Private enterprises	13,452,310	41%	11,895,345	40%
Insurance companies	350,224	1%	161,064	1%
Others	589,913	2%	514,171	2%
	<b>32,555,184</b>	<b>100%</b>	<b>29,903,802</b>	<b>100%</b>

#### (ii) Off balance sheet items - **Group**

	2023 Sh'000	2023 %	2022 Sh'000	2022 %
Manufacturing	58,333	1%	58,333	1%
Wholesale, retail trade and hotels	1,417,659	31%	1,417,659	31%
Transport and communications	484,068	11%	484,068	11%
Business service	48,390	1%	48,390	1%
Building, constructions and real estate	182,191	4%	182,191	4%
Social, community and personal service	2,407,451	52%	2,381,414	52%
Organisations and others	4,193	0%	4,193	0%
	<b>4,602,285</b>	<b>100%</b>	<b>4,576,248</b>	<b>100%</b>

#### Off balance sheet items - **Bank**

	2023 Sh'000	2023 %	2022 Sh'000	2022 %
Manufacturing	57,468	1%	57,001	1%
Wholesale, retail trade and hotels	1,396,631	31%	1,385,285	31%
Transport and communications	476,887	11%	473,013	11%
Business service	47,672	1%	47,285	1%
Building, constructions and real estate	179,488	4%	178,030	4%
Social, community and personal service	2,346,091	52%	2,327,032	52%
Organisations and others	4,131	0%	4,098	0%
	<b>4,508,368</b>	<b>100%</b>	<b>4,471,744</b>	<b>100%</b>

### 4.3. Liquidity risk

The Group is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with customer requirements as and when they fall due.

#### Management of liquidity risk

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

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.3. Liquidity risk (continued)

#### Management of liquidity risk (continued)

assets, largely made up of short-term liquid investment securities, loans and receivables to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

#### Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. The minimum ratio required by the regulator is 20%. Net liquid assets include 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 Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	2023	2022
At 31 December	12.40%	20.98%
Average for the period	20.61%	26.88%
Maximum for the period	23.99%	32.24%
Minimum for the period	12.40%	20.84%
<i>Minimum regulatory requirement</i>	<b>20.00%</b>	<b>20.00%</b>

The Bank was below the minimum ratio required by the regulator as of close of the year.

ABC Capital Bank Uganda was within the regulatory requirement of 20%.

#### Residual contractual maturities of financial assets and liabilities

The table below analyses the Group's and Bank's financial assets and financial liabilities into the relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The Group and Bank manage the inherent liquidity risk based on expected undiscounted cash flows.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.3. Liquidity risk (continued)

#### Residual contractual maturities of financial assets and liabilities (continued)

Group	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Total Sh'000
<b>At 31 December 2023</b>						
<b>Financial assets</b>						
Cash and balances with Central Banks	2,208,117	193,279	-	-	-	2,401,396
Deposits and balance due from banking institutions	1,464,319	309,852	25,739	-	-	1,799,910
Government securities	124,462	240,889	-	1,625,380	5,876,629	7,867,360
Loans and receivables to customers	12,127,783	272,404	4,357,789	6,450,952	6,242,838	29,451,766
<b>Total financial assets</b>	<b>15,924,681</b>	<b>1,016,424</b>	<b>4,383,528</b>	<b>8,076,332</b>	<b>12,119,467</b>	<b>41,520,432</b>
<b>Financial liabilities</b>						
Balances due to Central Bank	2,605,610	-	-	-	-	2,605,610
Deposits and balance due to banking institutions	1,495,453	-	-	-	-	1,495,453
Customer deposits	12,774,922	10,370,525	8,640,169	261,974	1,481,047	33,528,637
Long term debt	-	132,816	-	-	-	132,816
Lease Liability	-	-	-	173,573	13,932	187,505
<b>Total financial liabilities</b>	<b>16,875,985</b>	<b>10,503,341</b>	<b>8,640,169</b>	<b>435,547</b>	<b>1,494,979</b>	<b>37,950,021</b>
<b>Net liquidity gap</b>	<b>(951,304)</b>	<b>(9,486,917)</b>	<b>(4,256,641)</b>	<b>7,640,785</b>	<b>10,624,488</b>	<b>3,570,411</b>
<b>At 31 December 2022</b>						
Total financial assets	13,184,065	1,716,049	3,436,982	5,847,310	12,013,517	36,197,923
Total financial liabilities	11,728,112	9,908,927	8,706,503	1,033,792	1,661,231	33,038,565
<b>Net liquidity gap</b>	<b>1,455,953</b>	<b>(8,192,878)</b>	<b>(5,269,521)</b>	<b>4,813,518</b>	<b>10,352,286</b>	<b>3,159,358</b>

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

The table above shows the undiscounted cash flows on the Group's financial assets and liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.3. Liquidity risk (continued)

#### Residual contractual maturities of financial assets and liabilities (continued)

Bank	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Total Sh'000
<b>At 31 December 2023</b>						
<b>Financial assets</b>						
Cash and balances with Central Banks	2,298,923	-	-	-	-	2,298,923
Deposits and balance due from banking institutions	1,121,497	-	25,739	-	-	1,147,236
Government securities	-	-	-	1,583,878	5,876,629	7,460,507
Loans and receivables to customers	12,128,456	248,893	4,107,613	5,765,745	6,242,838	28,493,545
<b>Total financial assets</b>	<b>15,548,876</b>	<b>248,893</b>	<b>4,133,352</b>	<b>7,349,623</b>	<b>12,119,467</b>	<b>39,400,211</b>
<b>Financial liabilities</b>						
Balances due to Central Bank	2,605,610	-	-	-	-	2,605,610
Deposits and balance due to banking institutions	1,495,453	-	-	-	-	1,495,453
Customer deposits	12,535,714	9,892,109	8,384,412	261,902	1,481,047	32,555,184
Long term debt	-	132,816	-	-	-	132,816
Lease liability	-	-	-	119,662	13,932	133,594
<b>Total financial liabilities</b>	<b>16,636,777</b>	<b>10,024,925</b>	<b>8,384,412</b>	<b>381,564</b>	<b>1,494,979</b>	<b>36,922,657</b>
<b>Net liquidity gap</b>	<b>(1,087,901)</b>	<b>(9,776,032)</b>	<b>(4,251,060)</b>	<b>6,968,059</b>	<b>10,624,488</b>	<b>2,477,554</b>
<b>At 31 December 2022</b>						
Total financial assets	12,936,080	1,208,618	3,091,901	5,285,823	12,013,517	34,535,939
Total financial liabilities	11,540,233	9,441,109	8,545,390	1,030,639	1,661,231	32,218,602
<b>Net liquidity gap</b>	<b>1,395,847</b>	<b>(8,232,491)</b>	<b>(5,453,489)</b>	<b>4,255,184</b>	<b>10,352,286</b>	<b>2,317,337</b>

### 4.4. 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.

Overall responsibility for management of market risk rests with ALCO. The Group's Risk and Compliance Department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day-to-day implementation of those policies.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.4. Market risk (continued)

#### 4.4.1. Interest rate risk

The Group 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 Group's exposure to changes in interest rates and liquidity.

Interest rates on advances to customers and other risk assets are either pegged to the Group's base lending or the treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits. The Assets and Liability Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes.

The table below summarises the exposure to interest rate risk at the end of the reporting period. Included in the table are the Group financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Group	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Non interest bearing Sh'000	Total Sh'000
<b>At 31 December 2023</b>							
<b>Financial assets</b>							
Cash and balances with Central Banks	-	-	-	-	-	2,401,396	2,401,396
Deposits and balance due from banking institutions	318,947	763,616	-	3,739	-	713,608	1,799,910
Government securities	124,462	240,889	-	1,625,380	5,876,629	-	7,867,360
Loans and receivables to customers	3,979,541	259,973	706,290	9,299,431	15,206,531	-	29,451,766
<b>Total financial assets</b>	<b>4,422,950</b>	<b>1,264,478</b>	<b>706,290</b>	<b>10,928,550</b>	<b>21,083,160</b>	<b>3,115,004</b>	<b>41,520,432</b>
<b>Financial liabilities</b>							
Balances due to Central Bank	2,605,610	-	-	-	-	-	2,605,610
Deposits and balance due to banking institutions	269,307	1,165,018	53,531	-	-	7,597	1,495,453
Customer deposits	1,616,109	1,472,241	10,512,553	9,575,401	3,679,042	6,673,291	33,528,637
Long term debt	-	132,816	-	-	-	-	132,816
Lease liability	-	-	-	173,573	13,932	-	187,505
<b>Total financial liabilities</b>	<b>4,491,026</b>	<b>2,770,075</b>	<b>10,566,084</b>	<b>9,748,974</b>	<b>3,692,974</b>	<b>6,680,888</b>	<b>37,950,021</b>
<b>Interest sensitivity gap</b>	<b>(68,076)</b>	<b>(1,505,597)</b>	<b>(9,859,794)</b>	<b>1,179,576</b>	<b>17,390,186</b>	<b>(3,565,884)</b>	<b>3,570,411</b>
<b>At 31 December 2022</b>							
Total financial assets	4,973,154	975,193	636,918	7,747,748	18,700,638	3,164,272	36,197,923
Total financial liabilities	8,581,071	2,152,302	9,093,770	9,574,257	3,624,360	12,805	33,038,565
<b>Interest sensitivity gap</b>	<b>(3,607,917)</b>	<b>(1,177,109)</b>	<b>(8,456,852)</b>	<b>(1,826,509)</b>	<b>15,076,278</b>	<b>3,151,467</b>	<b>3,159,358</b>

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.4. Market risk (continued)

#### 4.4.1. Interest rate risk (continued)

Bank	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Non interest bearing Sh'000	Total Sh'000
<b>At 31 December 2023</b>							
<b>Financial assets</b>							
Cash and balances with Central Banks	-	-	-	-	-	2,298,923	2,298,923
Deposits and balance due from banking institutions	-	501,513	-	3,739	-	641,984	1,147,236
Government securities	-	-	-	1,583,878	5,876,629	-	7,460,507
Loans and receivables to customers	3,980,214	236,462	456,114	8,614,224	15,206,531	-	28,493,545
<b>Total financial assets</b>	<b>3,980,214</b>	<b>737,975</b>	<b>456,114</b>	<b>10,201,841</b>	<b>21,083,160</b>	<b>2,940,907</b>	<b>39,400,211</b>
<b>Financial liabilities</b>							
Balances due to Central Bank	2,605,610	-	-	-	-	-	2,605,610
Deposits and balance due to banking institutions	269,307	1,165,018	53,531	-	-	7,597	1,495,453
Customer deposits	1,502,941	1,128,811	10,256,796	9,575,329	3,679,042	6,412,265	32,555,184
Long term debt	-	132,816	-	-	-	-	132,816
Lease liability	-	-	-	119,662	13,932	-	133,594
<b>Total financial liabilities</b>	<b>4,377,858</b>	<b>2,426,645</b>	<b>10,310,327</b>	<b>9,694,991</b>	<b>3,692,974</b>	<b>6,419,862</b>	<b>36,922,657</b>
<b>Interest sensitivity gap</b>	<b>(397,644)</b>	<b>(1,688,670)</b>	<b>(9,854,213)</b>	<b>506,850</b>	<b>17,390,186</b>	<b>(3,478,955)</b>	<b>2,477,554</b>
<b>At 31 December 2022</b>							
Total financial assets	4,190,382	580,031	310,391	7,671,232	18,700,638	3,083,265	34,535,939
Total financial liabilities	8,206,138	1,890,682	8,932,657	9,551,960	3,624,360	12,805	32,218,602
<b>Interest sensitivity gap</b>	<b>(4,015,756)</b>	<b>(1,310,651)</b>	<b>(8,622,266)</b>	<b>(1,880,728)</b>	<b>15,076,278</b>	<b>3,070,460</b>	<b>2,317,337</b>

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

#### *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.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.4. Market risk (continued)

#### 4.4.1. Interest rate risk (continued)

*Increase/Decrease of 10% in Net Interest Margin (continued)*

- 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 future 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 01 January 2023.

	Amount		Scenario 1: 10% increase		Scenario 2: 10% decrease	
	Sh'000 2023	Sh'000 2022	Sh'000 2023	Sh'000 2022	Sh'000 2023	Sh'000 2022
Profit before tax - Bank	198,481	202,246	374,078	336,819	22,884	67,673
Adjusted core capital	3,079,447	2,759,259	3,202,365	2,853,460	2,956,529	2,665,058
Adjusted total capital	3,797,859	3,549,206	3,920,777	3,643,407	3,674,941	3,455,005
Risk weighted assets (RWA)	24,666,582	21,640,545	24,666,582	21,640,545	24,666,582	21,640,545
Adjusted core capital to RWA	12.48%	12.75%	12.98%	13.19%	11.99%	12.32%
Adjusted total capital to RWA	15.40%	16.40%	15.89%	16.83%	14.89%	15.96%

Assuming no management actions, a series of such rises/falls would increase/decrease net interest income for 2023 by Sh 176 million.

Also, a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 12.98% and 15.89% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 11.99% and 14.89% respectively. Both the revised capital ratios are well above the minimum capital requirement of 10.50% and 14.50% respectively.

#### 4.4.2. Foreign exchange risk

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

The Group'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 Group's and Bank's exposure to foreign exchange rate risk as at 31 December 2023. The financial instruments at carrying amounts categorised by currency:

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.4. Market risk (continued)

#### 4.4.2. Foreign exchange risk (continued)

Group	KES Sh'000	USD Sh'000	GBP Sh'000	EURO Sh'000	Others Sh'000	Total Sh'000
<b>At 31 December 2023</b>						
<b>Financial assets</b>						
Cash and balance with Central Banks	2,009,593	275,141	16,125	71,263	29,274	2,401,396
Government securities	7,464,524	-	-	-	402,836	7,867,360
Deposit and balances due from banking institutions	522,775	446,926	195,222	537,136	97,851	1,799,910
Loans and receivables to customers	26,156,889	3,294,871	-	6	-	29,451,766
<b>Total financial assets</b>	<b>36,153,781</b>	<b>4,016,938</b>	<b>211,347</b>	<b>608,405</b>	<b>529,961</b>	<b>41,520,432</b>
<b>Financial liabilities</b>						
Balances due to Central Bank	2,605,610	-	-	-	-	2,605,610
Customer deposits	27,880,079	5,034,427	186,165	409,228	18,738	33,528,637
Deposit due to banking institutions	560,459	880,440	389	54,082	83	1,495,453
Long term debt financing	-	132,816	-	-	-	132,816
Lease liability	133,594	53,911	-	-	-	187,505
<b>Total financial liabilities</b>	<b>31,179,742</b>	<b>6,101,594</b>	<b>186,554</b>	<b>463,310</b>	<b>18,821</b>	<b>37,950,021</b>
<b>Net on statement of financial position</b>	<b>4,974,039</b>	<b>(2,084,656)</b>	<b>24,793</b>	<b>145,095</b>	<b>511,140</b>	<b>3,570,411</b>

#### At 31 December 2022

Total financial assets	32,405,838	3,255,084	172,251	242,902	121,848	36,197,923
Total financial liabilities	28,987,548	3,552,868	189,669	298,833	9,647	33,038,565
<b>Net on statement of financial position</b>	<b>3,418,290</b>	<b>(297,784)</b>	<b>(17,418)</b>	<b>(55,931)</b>	<b>112,201</b>	<b>3,159,358</b>

Bank	KES Sh'000	USD Sh'000	GBP Sh'000	EURO Sh'000	OTHERS Sh'000	TOTAL Sh'000
<b>At 31 December 2023</b>						
<b>Financial assets</b>						
Cash and balance with Central Banks	1,907,197	275,070	16,122	71,260	29,274	2,298,923
Government securities	7,460,507	-	-	-	-	7,460,507
Deposit and balances due from banking institutions	28,406	343,368	194,832	482,970	97,660	1,147,236
Loans and receivables to customers	25,345,476	3,148,063	-	6	-	28,493,545
<b>Total financial assets</b>	<b>34,741,586</b>	<b>3,766,501</b>	<b>210,954</b>	<b>554,236</b>	<b>126,934</b>	<b>39,400,211</b>
<b>Financial liabilities</b>						
Balances due to Central Bank	2,605,610	-	-	-	-	2,605,610
Customer deposits	27,288,730	4,705,350	185,933	356,433	18,738	32,555,184
Deposit due to banking institutions	560,459	880,440	389	54,082	83	1,495,453
Long term debt financing	-	132,816	-	-	-	132,816
Lease liability	133,594	-	-	-	-	133,594
<b>Total financial liabilities</b>	<b>30,588,393</b>	<b>5,718,606</b>	<b>186,322</b>	<b>410,515</b>	<b>18,821</b>	<b>36,922,657</b>
<b>Net on statement of financial position</b>	<b>4,153,193</b>	<b>(1,952,105)</b>	<b>24,632</b>	<b>143,721</b>	<b>108,113</b>	<b>2,477,554</b>

#### At 31 December 2022

Total financial assets	31,196,871	2,811,934	165,775	241,052	120,307	34,535,939
Total financial liabilities	28,061,465	3,660,501	189,669	298,833	8,134	32,218,602
<b>Net on statement of financial position</b>	<b>3,135,406</b>	<b>(848,567)</b>	<b>(23,894)</b>	<b>(57,781)</b>	<b>112,173</b>	<b>2,317,337</b>

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.4. Market risk (continued)

#### 4.4.2. Foreign exchange risk (continued)

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 Group's business is transacted is Kenya Shillings.

*Appreciation/Depreciation of Sh against other currencies by 10%.*

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 01 January 2023. Assuming no management actions, a series of such rises and falls would impact the future earnings and capital as illustrated in the table below;

	Amount		Scenario 1: 10% appreciation		Scenario 2: 10% Depreciation	
	Sh'000 2023	Sh'000 2022	Sh'000 2023	Sh'000 2022	Sh'000 2023	Sh'000 2022
Profit before tax - Bank	198,481	202,246	30,917	120,439	366,045	284,053
Adjusted core capital	3,079,447	2,759,259	2,962,152	2,701,994	3,196,742	2,816,524
Adjusted total capital	3,797,859	3,549,206	3,680,564	3,491,941	3,915,154	3,606,471
Risk weighted assets (RWA)	24,666,582	21,640,545	24,666,582	21,640,545	24,666,582	21,640,545
Adjusted core capital to RWA	12.48%	12.75%	12.01%	12.49%	12.96%	13.02%
Adjusted total capital to RWA	15.40%	16.40%	14.92%	16.14%	15.87%	16.67%

A series of such appreciation would increase earnings for 2023 by Sh 168 million, while a series of such falls would decrease earnings for 2023 by Sh 168 million.

Also, a series of such rises would decrease the adjusted core capital to RWA and adjusted total capital to RWA to 12.01% and 14.92% respectively, while a series of such falls would increase the adjusted core capital to RWA and adjusted total capital to RWA to 12.96% and 15.87% respectively. Both the revised capital ratios are well above the minimum capital requirement of 10.50% and 14.50% respectively.

#### 4.4.3. Price risk

The Group is exposed to equity securities price risk as a result of its holdings. Equity investments held are listed and traded on the Nairobi Securities Exchange. Exposure to equity price risk in aggregate is monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

The Group has a defined investment policy which sets limits on its exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the Group's price risk arising from its investments in equity securities.

If equity market indices had increased/decreased by 10%, with all other variables held constant, and all the Group's equity investments moving according to the historical correlation with the index, the profit before tax for the year would increase/decrease by Sh Nil (2022: Sh Nil). The net assets for the year would increase/decrease by Sh 4,214 (2022: Sh 3,920).

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.4. Market risk (continued)

#### 4.4.4. Fair value of financial assets and liabilities

*Financial instruments measured at fair value*

Determination of fair value and fair values hierarchy.

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The bank considers relevant and observable market prices in its valuations where possible.

This note provides information about how the Group determines fair values of various financial assets.

*Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurrent basis.*

#### Financial assets (Bank)

Fair value as at:	2023 Sh'000	2022 Sh'000	Fair value hierarchy	Valuation technique (s) and key inputs
Treasury bonds - FVTOCI (note 16)	83,996	92,119	Level 1	Quoted prices in an active market
Investment in Nairobi Securities Exchange (note 21)	42,140	47,600	Level 1	Quoted prices in an active market

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
<b>At 31 December 2023</b>				
Treasury bonds – FVTOCI (note 16)	83,996	-	-	83,996
Equity – FVTOCI (note 21)	42,140	-	-	42,140
<b>Total</b>	<b>126,136</b>	<b>-</b>	<b>-</b>	<b>126,136</b>
<b>At 31 December 2022</b>				
Treasury bonds – FVTOCI (note 16)	92,119	-	-	92,119
Investment in Nairobi Securities Exchange (note 21)	47,600	-	-	47,600
<b>Total</b>	<b>139,719</b>	<b>-</b>	<b>-</b>	<b>139,719</b>

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 4. Financial risk management (continued)

### 4.4. Market risk (continued)

#### 4.4.4. Fair value of financial assets and liabilities (continued)

There were no transfers between levels 1, 2 and 3 in the year ended 31 December 2023.

Fair value of financial assets and liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required). The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

### 4.5. Climate related risk

Climate-related risk refers to the potential negative impacts of climate change on the Group. It includes the potential for adverse effects on lives, livelihoods, health status, economic, social and cultural assets, services (including environmental), and infrastructure due to climate change.

In the recent past climate change has become more pronounced globally impacting the ecosystem within which the Bank's operate. It is for this reason that the Group has increased its focus on how climate change can translate into financial risks for the institution. The management views that the exposure to physical risks of climate change may result to severe losses caused by weather events. Some risks are in relation to the transition to a carbon-neutral economy, due to considerable exposures to high-emission sectors. These exposures make the Group vulnerable to new climate policies, rapidly advancing carbon-neutral technology and changing market conditions.

The Group will continually assess its prudential risks from climate change through the Group's existing risk management frameworks with a view to embed climate-related risks in its risk management policies. The Bank is reviewing its climate related risk policies on four thematic areas that represent core elements of how the Group operate:

- Governance: The Group reports on how climate-related prudential risks are embedded in the Groups' sound business and governance arrangements.
- Strategy: The actual and potential impact of climate-related risks on the Bank's strategy and financial planning: the Group reports on its strategic approach in managing the prudential risks and opportunities from climate change and the Group's long-term view in setting strategy.
- Risk management and measurement: The Group reports on how the prudential risks from climate change are addressed through their existing risk management frameworks.
- Financial disclosure: Climate-related financial disclosures that could promote more informed investment, lending and insurance underwriting decisions: the Group reports on its approach for disclosure of prudential risks from climate change.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 5. Capital management

The Group's objectives when managing capital are:

- To safeguard the Group'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 our regulators within the markets that the Group operates in.
- To maintain a strong capital base to support continued business development.
- To create an acceptable buffer catering for unexpected losses that the Group may incur in adverse market scenarios during the course of its business.

### 5.1. Regulatory capital

The Group'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) and the Bank of Uganda (BOU).

Both CBK and BOU 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.

#### *Kenya*

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 Sh 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.
- Supplementary capital of not less than 14.50% of risk-weighted assets plus risk-weighted off-statement of financial position items.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 5. Capital management (continued)

### 5.1. Regulatory capital (continued)

Kenya (continued)

The Bank has complied with all externally imposed capital ratios throughout the year. There have been no material changes in the Bank's management of capital during the period.

As per Central Bank of Kenya:	2023 Sh'000	2022 Sh'000
<b>Tier 1 capital</b>		
Ordinary share capital	1,050,000	1,050,000
Retained earnings	2,637,354	2,317,166
Investment in ABC Capital Bank Uganda Limited (note 22)	(607,907)	(607,907)
<b>Total</b>	<b>3,079,447</b>	<b>2,759,259</b>
<b>Tier 2 capital</b>		
Collective and specific allowances for impairment	718,412	789,947
<b>Total</b>	<b>718,412</b>	<b>789,947</b>
<b>Total regulatory capital</b>	<b>3,797,859</b>	<b>3,549,206</b>
<b>Risk-weighted assets</b>		
On balance sheet items	21,005,320	18,195,182
Off balance sheet items	67,296	55,895
Market risk	194,650	259,027
Operational risk	3,399,316	3,130,441
<b>Total risk-weighted assets</b>	<b>24,666,582</b>	<b>21,640,545</b>
Total regulatory capital expressed as a percentage of total risk-weighted assets (minimum requirement 14.50%)	15.40%	16.40%
Total tier 1 capital expressed as a percentage of risk-weighted assets (minimum requirement 10.5%)	12.48%	12.75%

Uganda

The Bank monitors the adequacy of its capital using ratios established by the Bank of Uganda, which are in line with those established by the Bank for International Settlements (BIS). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments, market and other risk positions at a weighted amount to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies, debt and equity securities. Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them.

Four categories of risk weights (0%, 20%, 50%, and 100%) are applied; for example, cash and money instruments have a zero-risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carry a 100% risk weighting, meaning that it must be supported by capital equal to at least 12% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet related commitments are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets. Tier 1 capital (core capital) consists of shareholders' equity. Tier 2 capital includes the Bank's general provisions.

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

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 5. Capital management (continued)

### 5.1. Regulatory capital (continued)

Uganda (continued)

The Bank of Uganda requires each bank to: (a) hold the minimum level of regulatory capital of US\$ 120 billion (Sh 4,960,419,982) as at 31 December 2023; (b) maintain core capital of not less than 12.5% of risk weighted assets and off-balance sheet items; and (c) maintain total capital of not less than 14.5% of risk weighted assets plus risk-weighted off-balance sheet items.

As per Bank of Uganda:	2023 Sh'000	2022 Sh'000
<b>Tier 1 capital</b>		
Share capital fully paid up	1,192,030	957,661
Prior year retained earnings/(accumulated losses)	102,876	101,373
Intangible assets	(54,002)	(53,997)
<b>Total</b>	<b>1,240,904</b>	<b>1,005,037</b>
<b>Tier 2 capital</b>		
Regulatory reserve	9,493	6,984
<b>Total</b>	<b>9,493</b>	<b>6,984</b>
On balance sheet items	2,443,459	2,063,678
Off balance sheet items	88,073	77,377
Market risk	13,790	38,050
<b>Total risk-weighted assets</b>	<b>2,545,322</b>	<b>2,179,105</b>
Total regulatory capital expressed as a percentage of total risk-weighted assets (minimum requirement 14.5%)	<b>98.94%</b>	76.38%
Total tier 1 capital expressed as a percentage of total risk-weighted assets (minimum requirement 12.5%)	<b>98.19%</b>	75.85%

With the operationalization of the BOU guideline on minimum Core Capital, ABC Bank Uganda opted to apply to BOU to transition to Tier II bank. The application is awaiting BOU approval.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 5. Capital management (continued)

### 5.1. Regulatory capital (continued)

The risk weighted assets are as follows:

Bank	2023			2022		
	Amount (Sh'000)	Weight	Risk Weighted (Sh'000)	Amount (Sh'000)	Weight	Risk Weighted (Sh'000)
<b>On-Balance sheet assets</b>						
Cash (including foreign notes and coins)	202,896	-	-	247,614	-	-
Balances with Central Bank of Kenya	2,096,027	-	-	2,382,195	-	-
Kenya treasury bonds	7,460,507	-	-	7,319,991	-	-
Deposits and balances due from local institutions	79,218	0.2	15,844	611,590	0.2	122,318
Deposits and balances due from foreign institutions	1,126,657	0.2	225,331	721,841	0.2	144,368
Lending fully secured by cash	5,013,463	-	-	2,807,287	-	-
Loans and receivables secured by residential property	6,807,890	0.4	2,382,761	6,675,406	0.4	2,336,392
Other loans and receivables (net of provisions)	16,672,192	1.0	16,672,192	13,914,837	1.0	13,914,837
Fixed assets (net of depreciation)	576,181	1.0	576,181	630,740	1.0	630,740
Amounts due from group companies	87,234	1.0	87,234	73,028	1.0	73,028
Other assets	1,045,777	1.0	1,045,777	973,499	1.0	973,499
<b>Total</b>	<b>41,168,042</b>		<b>21,005,320</b>	<b>36,358,028</b>		<b>18,195,182</b>
<b>Off-Balance sheet assets</b>						
Local banks	68,123	0.2	13,625	31,010	0.2	6,202
Foreign banks and foreign government	2,986	0.2	597	2,986	0.2	597
Others	53,075	1.0	53,074	49,097	1.0	49,097
<b>Total</b>	<b>124,184</b>		<b>67,296</b>	<b>83,093</b>		<b>55,896</b>

### 5.2. 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, and is subject to review by the Credit Committee or ALCO as appropriate.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 5. Capital management (continued)

### 5.2. Capital allocation (continued)

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

#### Brokerage

Stock brokerage entities in Kenya are governed by the Capital Markets Act and as such are subject to solvency regulations which specify the minimum amount and type of capital that must be held. The company manages capital in accordance with these rules. The Capital Markets (Licensing Requirements) (General) Regulations, 2002 contains the following regulations relevant to ABC Capital Limited:

- The level of paid-up share capital for a stockbroker shall not be below Sh 50,000,000 at any time during the license period. The company maintained capital well above the minimum requirement.
- The minimum paid up share capital shall always be unimpaired and shall not be advanced to the directors or associates of the stockbroker. No such advances were issued and neither did the share capital suffer any impairment.
- The working capital shall not be below twenty percent of the prescribed minimum shareholders' funds or three times the average monthly operating costs whichever is higher. This was fully complied with in the period.
- Unsecured advances, loans and other amounts to directors or associates shall in aggregate not exceed ten percent of the prescribed minimum shareholders funds at any time provided that such loans are with respect to any amount in excess of the minimum paid up capital. No such advances were issued.
- Ratio of the stockbroker's bank overdraft to the paid-up capital shall not exceed twenty percent at any time. The company does not have any bank overdrafts.

	2023 Sh'000	2022 Sh'000
<b>Minimum prescribed capital</b>	<b>50,000</b>	50,000
<b>Shareholders' funds</b>		
Share capital	135,000	135,000
Share premium	100	100
Revaluation reserve	(9,752)	8,400
Capital reserve	15,000	15,000
Accumulated deficit	(89,131)	(93,496)
	<b>51,217</b>	65,004
<b>Working capital</b>		
Current assets	144,503	127,911
Current liabilities	(105,370)	(85,962)
<b>Net assets /(liabilities)</b>	<b>39,133</b>	41,949
<b>Total expenses</b>	<b>24,089</b>	16,586
<b>Average monthly expenses</b>	<b>(2,007)</b>	(1,382)
<b>20% of minimum shareholders' funds</b>	<b>10,000</b>	10,000

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 6. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

### 6.1. Critical accounting judgements in applying the Group's accounting policies

#### *Business model assessment*

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held.

Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

#### *Significant increase in credit risk (IFRS 9)*

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

#### *Establishing groups of assets with similar credit risk characteristics (IFRS 9)*

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is an appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

#### *Models and assumptions used (IFRS 9)*

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 6. Critical accounting judgements and key sources of estimation uncertainty (continued)

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

*Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario*

When measuring ECL, the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

*Probability of default*

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

*Loss Given Default*

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

*Impairment losses on loans and receivables*

The Group reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio.

The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

*Financial assets held at amortised cost - Government securities*

The Group follows the guidance of IFRS 9 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as financial assets held at amortised cost. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as FVTOCI. The investments would therefore be measured at fair value not amortised cost.

*Income taxes*

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

# Summary of accounting policies (continued)

for the year ended 31 December 2023

## 6. Critical accounting judgements and key sources of estimation uncertainty (continued)

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

*Accounting for leases under IFRS 16*

Management has made various judgements and estimates under IFRS 16 as detailed below:

*Incremental borrowing rate:*

To determine the incremental borrowing rate, the company:

- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, which does not have recent third-party financing; and
- makes adjustments specific to the lease, e.g., term, country, currency and security.

*Lease term/period:*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

### 6.2. Key sources of estimation uncertainty

*Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario*

When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

*Probability of default*

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

*Loss Given Default*

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

*Fair value measurement and valuation*

Some of the company's assets and liabilities are measured at fair value for financial reporting process. In estimating the fair value of an asset or liabilities, the company uses market – observable data to the extent it is available. Where level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation.

# Notes to the annual financial statements

for the year ended 31 December 2023

## 7. Interest income

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Loans and advances to customers	3,721,400	2,689,203	3,574,795	2,558,557
Government securities – amortised cost	931,990	870,098	881,394	826,789
Government securities – FVTOCI	12,119	12,218	12,119	12,218
Deposits and placements with banking institutions	87,032	115,426	52,238	90,259
	<b>4,752,541</b>	<b>3,686,945</b>	<b>4,520,546</b>	<b>3,487,823</b>

## 8. Interest expense

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Customer deposits	2,486,943	2,115,356	2,476,145	2,105,523
Deposits and placements from banking institutions	270,908	12,987	273,520	17,084
Interest on lease liability	15,442	22,603	14,907	19,490
	<b>2,773,293</b>	<b>2,150,946</b>	<b>2,764,572</b>	<b>2,142,097</b>

## 9. Non funded income

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
<b>9.1 Net fees and commission income</b>				
Credit related fees and commission	33,639	233,078	19,475	218,878
Service related fees and commission	159,195	150,554	110,084	111,054
	<b>192,834</b>	<b>383,632</b>	<b>129,559</b>	<b>329,932</b>
<b>9.2 Foreign exchange trading income</b>				
Net foreign exchange gain income	192,340	320,299	185,072	307,803
	<b>192,340</b>	<b>320,299</b>	<b>185,072</b>	<b>307,803</b>
<b>9.3 Other operating income</b>				
Rental income	609	609	609	609
Miscellaneous income	33,755	27,744	762	1,276
Gain on disposal of property and equipment	838	-	-	-
Bad debts recovered	8,575	7,522	522	1,290
Gain on disposal of Government securities	1,262	1,227	1,262	1,227
	<b>45,039</b>	<b>37,102</b>	<b>3,155</b>	<b>4,402</b>

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 10. Operating expenses

### 10.1 Impairment charge

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Impairment charge on loans and advances (note 17)	265,988	222,065	216,507	207,177
Impairment charge on low credit risk portfolio (note 18)	1,330	(1,620)	1,367	(1,651)
Impairment charge on off balance sheet items (note 18)	(444)	(6,229)	1,676	(7,634)
Impairment charge on other financial assets (note 18)	80,367	87,663	80,367	87,663
	<b>347,241</b>	<b>301,879</b>	<b>299,917</b>	<b>285,555</b>

### 10.2 Other operating expenses

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Staff costs (note 11)	929,872	873,960	811,354	773,864
Depreciation of property and equipment (note 19)	43,589	53,222	33,018	46,210
Amortisation of right-of-use assets (note 20)	79,461	80,706	61,145	60,682
Amortisation of intangible assets (note 21)	31,658	33,790	18,515	21,812
Auditors' remuneration				
– parent	8,916	7,935	8,916	7,935
– subsidiaries	4,307	4,579	-	-
Contribution to deposit protection fund	57,959	52,855	54,530	51,291
Directors' emoluments				
– fees	8,023	7,744	4,870	4,920
– others	128,407	108,548	123,127	102,617
Low value and short term leases	12,083	12,109	7,037	10,786
Advertising costs	87,034	18,485	81,396	122,239
Communication	46,002	37,660	36,769	30,909
Printing and stationery	16,512	9,518	14,454	7,554
Computer and software maintenance	25,928	23,575	10,324	10,256
Travelling and vehicle running expenses	25,897	20,719	24,732	19,492
Legal and professional fees	103,424	69,035	97,321	65,577
Security	36,562	35,583	30,737	31,104
Insurance	27,003	21,865	23,575	19,368
Bank charges	22,832	20,115	10,923	10,465
Office expenses	6,035	-	6,035	6,261
Water and electricity cost	18,876	-	18,876	16,286
Repair and maintenance	24,574	6,261	24,574	22,067
Other expenses	116,898	236,892	73,134	58,367
	<b>1,861,852</b>	<b>1,735,156</b>	<b>1,575,362</b>	<b>1,500,062</b>

## 11. Staff costs

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Salaries and allowances	823,536	783,231	709,427	685,150
Staff training	2,096	2,272	1,913	2,267
NSSF contribution	2,993	601	2,993	601
Pension contribution – defined contribution	27,897	28,452	27,402	27,984
Leave pay provision	5,095	5,993	5,095	5,993
Medical expense	32,767	27,768	29,092	26,514
Housing levy contribution	6,213	-	6,213	-
Other	29,275	25,643	29,219	25,355
	<b>929,872</b>	<b>873,960</b>	<b>811,354</b>	<b>773,864</b>

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 11. Staff costs (continued)

The average number of employees per department in 2023 is 8 (2022:7). The total number of employees in the Bank in 2023 was 256, Group was 273 (2022: Bank (248), Group (266)).

## 12. Taxation

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
<b>12.1 Taxation expense</b>				
Income tax based on taxable profit for the year at 30%	58,642	73,365	55,023	71,001
Taxation assessed on separate income	10,101	8,826	183	-
	<b>68,743</b>	<b>82,191</b>	<b>55,206</b>	<b>71,001</b>
Deferred tax credit (note 27)	(104,843)	(104,430)	(105,755)	(104,499)
Prior year underprovision – current tax	377	-	377	-
	<b>(35,723)</b>	<b>(22,239)</b>	<b>(50,172)</b>	<b>(33,498)</b>

## 12.2 Reconciliation of tax expense to the expected tax based on accounting profit

Accounting profit before taxation	200,368	239,997	198,481	202,246
Tax at 30% (2022: 30%)	60,111	71,524	59,544	60,674
Tax effect of expenses not deductible for tax	22,275	20,515	32,658	30,716
Tax effect of income not subject to tax	(128,901)	(125,468)	(142,751)	(124,888)
Prior year under/(over) provision current tax	377	-	377	-
Prior year under/(over) provision deferred tax	468	2,463	-	-
Income assessed separately for tax	9,917	8,826	-	-
Derecognition of deferred tax	-	(99)	-	-
<b>Taxation expense</b>	<b>(35,753)</b>	<b>(22,239)</b>	<b>(50,172)</b>	<b>(33,498)</b>

## 12.3 Corporate tax recoverable

At 1 January	(80,968)	(20,260)	(64,566)	(6,383)
Current tax charge for the year	70,696	73,434	55,206	71,001
Paid in the year	(55,645)	(133,657)	(39,727)	(129,184)
Prior year tax adjustment	377	-	377	-
Translation adjustment	(3,117)	(485)	-	-
<b>At 31 December</b>	<b>(68,657)</b>	<b>(80,968)</b>	<b>(48,710)</b>	<b>(64,566)</b>
Comprising:				
Income tax recoverable	(68,657)	(80,968)	(48,710)	(64,566)
Income tax payable	-	-	-	-

The balances receivable and payable have not been offset in the statement of financial position as the Group does not have a legal right of offset.

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 13. Earnings per share

Earnings per share is calculated by dividing the profit attributable to shareholders by the number of ordinary shares in issue during the year.

	Group		Bank	
	2023	2022	2023	2022
<b>Earnings</b>				
<i>Earnings for purposes of basic and diluted earnings per share (Sh'000)</i>	<b>241,975</b>	251,597	<b>248,653</b>	235,744
<b>Number of shares</b>				
<i>Weighted average number of ordinary shares (thousands)</i>	<b>105,000</b>	105,000	<b>105,000</b>	105,000
<b>Earnings per share</b>				
<i>Basic and diluted (Sh)</i>	<b>2.30</b>	2.40	<b>2.37</b>	2.25

The diluted earnings per share is the same as the basic earnings per share as there were no potentially dilutive shares as at 31 December 2023 or 31 December 2022.

## 14. Cash and balances with central banks

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Cash in hand	<b>254,533</b>	254,608	<b>152,060</b>	173,601
Mobile money float	<b>50,836</b>	74,794	<b>50,836</b>	74,794
Balances with Central Bank of Kenya				
- Cash reserve ratio requirement	<b>1,360,212</b>	1,250,317	<b>1,360,212</b>	1,250,317
- Other – available for use by the Bank	<b>735,815</b>	1,131,097	<b>735,815</b>	1,131,097
	<b>2,401,396</b>	2,710,816	<b>2,298,923</b>	2,629,809

The cash reserve ratio requirement is non interest bearing and is based on the customer deposits with the Bank as adjusted by the Central Bank of Kenya and Bank of Uganda requirements. At 31 December 2023 the cash reserve ratio requirement for Kenya was 4.25% (2022: 4.25%) while that of Uganda was 10.00% (2022: 8.00%) of all customer deposits. These funds are not available for the day-to-day operations of the Group.

## 15. Deposits and balances due from banking institutions

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Deposits with banking institutions	<b>619,984</b>	56,107	<b>619,984</b>	431,456
Balances with banking institutions	<b>1,179,926</b>	1,693,466	<b>527,252</b>	757,153
	<b>1,799,910</b>	1,749,573	<b>1,147,236</b>	1,188,609

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 16. Government securities

### 16.1 At amortised cost

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
<b>16.1.1 Treasury bills</b>				
Treasury bills at amortised cost:				
Maturing within 90 days of the end of the reporting period				
Total at amortised cost	<b>313,469</b>	214,795	-	-
	<b>313,469</b>	214,795	-	-

### 16.1.2 Treasury bonds at amortised cost

Treasury bonds at amortised cost:				
Maturing after 1 year but within 5 years	<b>1,673,075</b>	1,227,815	<b>1,583,878</b>	1,172,643
Maturing after 5 years	<b>5,804,512</b>	6,059,450	<b>5,800,495</b>	6,059,450
	<b>7,477,587</b>	7,287,265	<b>7,384,373</b>	7,232,093

### 16.2 Treasury bonds at fair value through comprehensive income

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Treasury bonds at FVTOCI				
At 1 January	<b>127,150</b>	134,411	<b>92,119</b>	98,392
Purchases	<b>56,193</b>	181,370	<b>56,023</b>	179,242
Disposals	<b>(82,576)</b>	(181,029)	<b>(47,545)</b>	(177,156)
Fair value loss (note 21)	<b>(16,601)</b>	(7,602)	<b>(16,601)</b>	(8,359)
<b>At 31 December</b>	<b>84,166</b>	127,150	<b>83,996</b>	92,119

The total investment in government securities at the end of the reporting period was as follows:

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Treasury bills at amortised cost	<b>313,469</b>	214,795	-	-
Treasury bonds at amortised cost	<b>7,477,587</b>	7,287,265	<b>7,384,373</b>	7,232,093
Treasury bonds at FVTOCI	<b>84,166</b>	127,149	<b>83,996</b>	92,119
	<b>7,875,222</b>	7,629,209	<b>7,468,369</b>	7,324,212
Less: Impairment allowance	<b>(7,862)</b>	(4,221)	<b>(7,862)</b>	(4,221)
	<b>7,867,360</b>	7,624,988	<b>7,460,507</b>	7,319,991

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 16. Government securities (continued)

### 16.2 Treasury bonds at fair value through comprehensive income (continued)

Treasury bills and bonds are debt securities issued by the Governments of Kenya and Uganda and are classified as amortised and fair value through other comprehensive income. The weighted average effective interest rate on treasury bills at 31 December 2023 was 9.87% (2022: 9.01%) and the rate for the treasury bonds was 12.41% (2022: 12.42%).

## 17. Loans and receivables to customers

### 17.1 Loans and receivables to customers:

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Loans and receivables	26,799,021	22,056,345	25,893,787	21,403,874
Bills discounted	170,889	189,382	170,889	189,382
Overdrafts	4,116,081	3,291,828	4,050,666	3,209,673
	<b>31,085,991</b>	25,537,555	<b>30,115,342</b>	24,802,929
Allowance for expected credit loss (note 17.2)	(1,634,225)	(1,425,009)	(1,621,797)	(1,405,399)
	<b>29,451,766</b>	24,112,546	<b>28,493,545</b>	23,397,530

#### 17.1.1 Analysis of loans and advances by staging

Bank	Stage 1	Stage 2	Stage 3	Total
	12-Month ECL Sh'000	Lifetime ECL Sh'000	Lifetime ECL Sh'000	
Gross carrying amount as at 31 December 2023	22,492,876	1,598,435	6,024,031	30,115,342
Allowance for expected credit loss (note 17.2)	(196,913)	(77,665)	(1,347,219)	(1,621,797)
	22,295,963	1,520,770	4,676,812	28,493,545

The weighted average effective interest rate on loans and receivables to customers as at 31 December 2023 was 19.27% (2022: 14.91%). The weighted average effective interest rate on overdrafts as at 31 December 2023 was 16.46% (2022: 15.78%). The weighted average effective interest rate on bills discounted at 31 December 2023 was 5.02% (2022: 4.75%).

The interest rate on loans and receivables to customers are either pegged to the Central Bank Rate. Therefore, the interest rates fluctuate depending on the movement in the Central Bank Rate. Included in net advances of Sh 28,493,545 (2022: Sh 23,397,530) are loans and receivables amounting to Sh 6,024,031 (2022: Sh 5,074,711) which have been classified as life-time.

#### 17.1.2 Analysis of gross loans and advances by maturity

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Maturing within one month	13,465,776	8,248,115	13,465,776	8,211,927
Maturing within 90 days	287,619	1,276,912	252,352	1,237,675
Maturing after 90 days and within one year	4,426,352	3,487,644	4,176,176	3,272,102
Maturing after one to five years	6,635,218	5,148,476	5,950,012	4,704,817
Over five years	6,271,026	7,376,408	6,271,026	7,376,408
	<b>31,085,991</b>	25,537,555	<b>30,115,342</b>	24,802,929

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 17. Loans and receivables to customers (continued)

### 17.1.2. Analysis of gross loans and advances by maturity (continued)

The related party transactions and balances are covered under note 33 and concentrations of advances to customers are covered under Financial Risk Management disclosures in note 4.

### 17.2 Movement in allowance for expected credit losses:

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
At 1 January	1,425,009	1,206,364	1,405,399	1,198,424
Additional provisions in the year	265,988	222,065	216,507	207,177
Written off	(56,772)	(3,420)	(109)	(202)
At 31 December	1,634,225	1,425,009	1,621,797	1,405,399

## 18. Other assets

### 18.1 Movement in allowance for expected credit losses: low credit risk portfolio

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
At 1 January	12,733	14,353	10,113	11,764
Additional provisions in the year	1,330	(1,620)	1,367	(1,651)
At 31 December	11,403	12,733	11,480	10,113

### 18.2 Movement in allowance for expected credit losses: off balance sheet items

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
At 1 January	6,563	12,792	4,393	12,027
Additional provisions in the year	(444)	(6,229)	1,676	(7,634)
At 31 December	6,119	6,563	6,069	4,393

### 18.3 Movement in allowance for expected credit losses: other financial assets

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
At 1 January	200,271	112,608	200,271	112,608
Reduction of provisions in the year	80,367	87,663	80,367	87,663
At 31 December	280,638	200,271	280,638	200,271

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 18. Other assets (continued)

### 18.4 Other assets

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Prepayments	84,166	66,039	71,257	54,321
ATM deposits	2,441	2,441	2,441	2,441
Trade receivables	19,019	14,235	-	-
Sundry	489,744	439,768	443,979	401,589
Allowance for expected credit loss in respect to other assets	(280,637)	(200,271)	(280,637)	(200,271)
	<b>314,733</b>	<b>322,212</b>	<b>237,040</b>	<b>258,080</b>

## 19. Property and equipment

### 19.1 Property and equipment – Group

	Buildings Sh'000	Office renovations Sh'000	Computers, copiers, and faxes Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Capital work in progress Sh'000	Total Sh'000
<b>Cost</b>							
At 1 January 2022	253,213	210,243	333,865	13,637	317,756	65,130	1,193,844
Additions	-	-	4,394	-	14,511	64,216	83,121
Transfer to intangible assets (note 21)	-	-	-	-	-	(771)	(771)
Translation adjustment	-	-	1,998	129	1,509	271	3,907
At 31 December 2022	253,213	210,243	340,257	13,766	333,776	128,846	1,280,101
At 01 January 2023	253,213	210,243	340,257	13,766	333,776	128,846	1,280,101
Additions	-	1,131	17,284	8,650	5,379	19,815	52,259
Disposals	-	-	-	(3,920)	-	-	(3,920)
Transfer to intangible assets (note 21)	-	-	-	-	-	(4,009)	(4,009)
Transfer to expenses	-	516	-	-	2,450	(10,549)	(7,583)
Translation adjustment	-	-	8,815	136	-	(13,814)	(4,863)
At 31 December 2023	253,213	211,890	366,356	18,632	341,605	120,289	1,311,985
<b>Depreciation</b>							
At 1 January 2022	60,829	160,413	288,174	7,734	266,418	1,552	785,120
Charge for the year	5,038	23,908	10,972	2,132	11,171	-	53,221
Translation adjustment	(1)	-	2,650	52	1,327	-	4,028
At 31 December 2022	65,866	184,321	301,796	9,918	278,916	1,552	842,369
At 01 January 2023	65,866	184,321	301,796	9,918	278,916	1,552	842,369
Charge for the year	5,040	10,031	12,412	3,821	12,285	-	43,589
Disposals	-	-	-	(3,108)	-	-	(3,108)
Translation adjustment	(1)	-	(6,210)	(20)	3	(1,552)	(7,780)
At 31 December 2023	70,905	194,352	307,998	10,611	291,204	-	875,070
<b>Net Book Value</b>							
At 31 December 2023	182,308	17,538	58,358	8,021	50,401	120,289	436,915
At 31 December 2022	187,347	25,922	38,461	3,848	54,860	127,294	437,732

The capital work in progress comprises costs incurred up to the end of the reporting period towards partitioning and renovation of branches. Transfer from work in progress related to renovation at the banks' branches.

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 19. Property and equipment (continued)

### 19.1 Property and equipment – Bank

	Buildings Sh'000	Office renovations Sh'000	Computers, copiers and faxes Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Capital work in progress Sh'000	Total Sh'000
<b>Cost</b>							
At 1 January 2022	251,961	210,243	279,373	6,536	277,866	63,283	1,089,262
Additions	-	-	3,936	-	4,361	63,505	71,802
Transfers to expenses	-	5,556	-	-	5,101	(10,985)	(328)
Transfer to intangible assets (note 21)	-	-	-	-	-	(771)	(771)
At 31 December 2022	251,961	215,799	283,309	6,536	287,328	115,032	1,159,965
At 01 January 2023	<b>251,961</b>	<b>215,799</b>	<b>283,309</b>	<b>6,536</b>	<b>287,328</b>	<b>115,032</b>	<b>1,159,965</b>
Additions	-	1,131	15,994	-	1,805	19,815	38,745
Transfer to expenses	-	516	-	-	2,450	(10,549)	(7,583)
Transfer to intangible assets (note 21)	-	-	-	-	-	(4,009)	(4,009)
At 31 December 2023	<b>251,961</b>	<b>217,446</b>	<b>299,303</b>	<b>6,536</b>	<b>291,583</b>	<b>120,289</b>	<b>1,187,118</b>
<b>Depreciation</b>							
At 1 January 2022	60,003	159,585	254,172	3,594	230,266	-	707,620
Charge for the year	5,039	23,908	7,013	1,261	8,989	-	46,210
At 31 December 2022	65,042	183,493	261,185	4,855	239,255	-	753,830
At 01 January 2023	<b>65,042</b>	<b>183,493</b>	<b>261,185</b>	<b>4,855</b>	<b>239,255</b>	-	<b>753,830</b>
Charge for the year	<b>5,040</b>	<b>10,031</b>	<b>7,632</b>	<b>1,261</b>	<b>9,054</b>	-	<b>33,018</b>
At 31 December 2023	<b>70,082</b>	<b>193,524</b>	<b>268,817</b>	<b>6,116</b>	<b>248,309</b>	-	<b>786,848</b>
<b>Net Book Value</b>							
At 31 December 2023	<b>181,879</b>	<b>23,922</b>	<b>30,486</b>	<b>420</b>	<b>43,274</b>	<b>120,289</b>	<b>400,270</b>
At 31 December 2022	186,919	32,306	22,124	1,681	48,073	115,032	406,135

The capital work in progress comprises costs incurred up to the end of the reporting period towards partitioning and renovation of branches. Transfer from work on progress comprises cost of renovation at the banks' branches.

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 20. Leases

### 20.1 Right-of-use assets - Group

	Buildings Sh'000	Motor Vehicles Sh'000	Furniture and Equipment Sh'000	Total Sh'000
<b>Cost</b>				
At 1 January 2022	398,413	17,211	40,235	455,859
Additions	-	10,004	-	10,004
Write Off	(3,593)	(17,211)	-	(20,804)
Translation	558	-	-	558
At 31 December 2022	395,378	10,004	40,235	445,617
At 1 January 2023	395,378	10,004	40,235	445,617
Additions	24,708	-	-	24,708
Translation	58,292	-	-	58,292
Write off	(27,824)	-	-	(27,824)
<b>At 31 December 2023</b>	<b>450,554</b>	<b>10,004</b>	<b>40,235</b>	<b>500,793</b>
<b>Depreciation</b>				
At 1 January 2022	180,189	13,188	20,397	213,774
Write Off	(3,593)	(17,211)	-	(20,804)
Charge for the year	69,467	4,440	6,799	80,706
At 31 December 2022	246,063	417	27,196	273,676
At 1 January 2023	246,063	417	27,196	273,676
Write off	(27,824)	-	-	(27,824)
Charge for the year	67,660	5,002	6,799	79,461
<b>At 31 December 2023</b>	<b>285,899</b>	<b>5,419</b>	<b>33,995</b>	<b>325,313</b>
<b>Net Book Value</b>				
<b>At 31 December 2023</b>	<b>164,655</b>	<b>4,585</b>	<b>6,240</b>	<b>175,480</b>
<b>At 31 December 2022</b>	<b>149,315</b>	<b>9,587</b>	<b>13,039</b>	<b>171,941</b>

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 20. Leases (continued)

### 20.2 Right-of-use assets - Bank

	Buildings Sh'000	Motor Vehicles Sh'000	Furniture and Equipment Sh'000	Total Sh'000
<b>Cost</b>				
At 1 January 2022	298,744	17,211	40,235	356,190
New leases	-	10,004	-	10,004
Write-offs	(3,593)	(17,211)	-	(20,804)
At 31 December 2022	295,151	10,004	40,235	345,390
As at 1 January 2023	295,151	10,004	40,235	345,390
New leases	24,707	-	-	24,707
Write off	(27,824)	-	-	(27,824)
At 31 December 2023	292,034	10,004	40,235	342,273
<b>Depreciation</b>				
At 1 January 2022	114,792	13,188	20,397	148,377
Charge for the year	49,443	4,440	6,799	60,682
Write off	(3,593)	(17,211)	-	(20,804)
At 31 December 2022	160,642	417	27,196	188,255
As at 1 January 2023	160,642	417	27,196	188,255
Charge for the year	49,344	5,002	6,799	61,145
Write off	(27,824)	-	-	(27,824)
As at 31 December 2023	182,162	5,419	33,995	221,576
<b>Net Book Value</b>				
At 31 December 2023	109,872	4,585	6,240	120,697
At 31 December 2022	134,509	9,587	13,039	157,135

### 20.3 Lease liability

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
At 1 January	173,077	236,340	171,075	212,502
Remeasurement	1,585	2,065	-	2,065
New leases	70,560	8,637	13,931	8,637
Settlements	(72,161)	(73,717)	(54,430)	(52,129)
Translation	(6,251)	(248)	-	-
At 31 December	166,810	173,077	130,576	171,075
<b>Interest expense</b>				
As at 1 January	19,824	15,855	2,682	2,797
Remeasurement	-	(1)	-	(1)
Charge for the year	15,442	23,574	14,907	19,490
Interest paid	(14,571)	(19,604)	(14,571)	(19,604)
Interest payable as at 31 December	20,695	19,824	3,018	2,682
<b>Net or carrying value</b>				
At 31 December	187,505	192,901	133,594	173,757

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 20. Leases (continued)

### 20.4 Lease liability maturity analysis

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
One to five years	173,573	192,901	119,662	173,757
More than five years	13,932	-	13,932	-
<b>As at 31 December</b>	<b>187,505</b>	<b>192,901</b>	<b>133,594</b>	<b>173,757</b>
less Interest payable	(20,695)	(19,824)	(3,018)	(2,682)
	<b>166,810</b>	<b>173,077</b>	<b>130,576</b>	<b>171,075</b>

## 21. Intangible assets

### 21.4 Software development

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
<b>Cost</b>				
At 1 January	422,944	415,171	293,779	288,126
Additions	3,572	4,917	2,250	4,882
Transfers from WIP– Note 19	4,009	771	4,009	771
Translation adjustment	29,231	2,085	-	-
<b>At 31 December</b>	<b>459,756</b>	<b>422,944</b>	<b>300,038</b>	<b>293,779</b>
<b>Amortisation</b>				
At 1 January	301,434	267,614	226,309	204,497
Charge for the year	31,658	33,790	18,515	21,812
Translation adjustment	17,419	30	-	-
<b>At 31 December</b>	<b>350,511</b>	<b>301,434</b>	<b>244,824</b>	<b>226,309</b>
<b>Net Book Value</b>				
<b>At 31 December</b>	<b>109,245</b>	<b>121,510</b>	<b>55,214</b>	<b>67,470</b>

### 21.2 Equity investment - at fair value through other comprehensive income – Group

The NSE is a listed company at the Nairobi Securities Exchange. Consequently, shares at the NSE are shown at fair value using the market price basis which has resulted in a fair value loss of Sh 5,460,000 (2022: fair value loss of Sh 8,400,000). The fair value gain/(loss) has been accounted for through other comprehensive income (see note 21.3).

	2023 Sh'000	2022 Sh'000
At 1 January	47,600	56,000
Fair value loss (note 21)	(5,460)	(8,400)
<b>At 31 December</b>	<b>42,140</b>	<b>47,600</b>

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 21. Intangible assets (continued)

### 21.3 Other investments – at fair value through other comprehensive income

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Fair value loss on investment in NSE	(5,460)	(8,400)	-	-
Fair value gain on other investments	(1,557)	(3,332)	-	-
	(7,017)	(11,732)	-	-
Fair value loss on Government Securities (note 16)	(8,242)	(5,764)	(8,242)	(6,492)
<b>Net fair value gain/ (loss)</b>	<b>(15,259)</b>	<b>(17,496)</b>	<b>(8,242)</b>	<b>(6,492)</b>

## 22. Investment in subsidiaries

	2023 Sh'000	2022 Sh'000
ABC Capital Uganda Limited	607,907	607,907
ABC Capital Limited	263,028	263,028
ABC Insurance Brokers Limited	20,000	20,000
	<b>890,935</b>	<b>890,935</b>

### 22.1 Shareholding

ABC Financial Services Limited is a wholly owned subsidiaries of African Banking Corporation Limited and has a 93.09% (2022: 93.09%) holding in its subsidiary, ABC Capital Limited, a stock brokerage company incorporated in Kenya.

Name of subsidiaries	Incorporation's / business's place	Nature of business	Proportion of ordinary shares held by:			
			Group (%)		Non-controlling interests (%)	
			2023	2022	2023	2022
<b>As at 31 December</b>						
ABC Capital Limited	Nairobi, Kenya	Provision of stock brokerage	<b>93.09</b>	93.09	<b>6.91</b>	6.91
ABC Capital Bank Uganda Limited	Kampala, Uganda	Provision of banking and related services	<b>61.95</b>	61.95	<b>38.05</b>	38.05
ABC Insurance Brokers Limited	Nairobi, Kenya	Provision of insurance brokerage	<b>51</b>	51	<b>49</b>	49

All subsidiaries' undertakings are included in the consolidation. The proportion of the voting rights in the subsidiaries undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiaries undertakings included in the group. Therefore, the directors of the Group concluded that the Group has control over ABC Capital Uganda Limited and ABC Capital Limited both of which have been consolidated in these financial statements.

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 22. Investment in subsidiaries (continued)

### 22.2 Movement in investment during the year

	ABC Capital Uganda		ABC Capital Limited		ABC Insurance Brokers	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
At 1 January	-	607,907	-	263,028	-	20,000

### 22.3 Summarised financial information on subsidiaries with material non- controlling interests

The total non-controlling interest for the year is Sh 403,179 (2022: Sh 320,882).

Set out below are the summarised financial information for the subsidiaries. All the subsidiaries have the same year end as the parent company.

#### 22.3.1 Summarised statement of financial position

	ABC Capital Uganda		ABC Capital Limited		ABC Insurance Brokers	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
<b>Current</b>						
Assets	1,192,886	1,253,253	144,503	127,911	54,590	60,679
Liabilities	(1,133,101)	(993,075)	(105,370)	(85,962)	(33,702)	(33,373)
<b>Total current net assets</b>	<b>59,785</b>	<b>260,178</b>	<b>39,133</b>	<b>41,949</b>	<b>20,888</b>	<b>27,306</b>
<b>Non-current</b>						
Assets	1,250,574	810,425	12,084	11,920	11,358	1,703
Liabilities	-	-	-	-	(1,061)	(148)
<b>Total non-current assets</b>	<b>1,250,574</b>	<b>810,425</b>	<b>12,084</b>	<b>11,920</b>	<b>10,297</b>	<b>1,555</b>
<b>Net assets</b>	<b>1,310,359</b>	<b>1,070,603</b>	<b>51,217</b>	<b>53,869</b>	<b>31,185</b>	<b>28,861</b>

#### 22.3.2 Summarised statement of profit or loss and other comprehensive income

	ABC Capital Uganda		ABC Capital Limited		ABC Insurance Brokers	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Revenue	270,795	236,295	30,433	22,184	34,851	30,988
Profit before income tax	(9,334)	34,486	6,344	471	4,877	2,794
Income tax credit/(expense)	(9,918)	(8,826)	(1,978)	(1,584)	(2,553)	(849)
<b>Total comprehensive income</b>	<b>213,773</b>	<b>61,998</b>	<b>(2,651)</b>	<b>(12,845)</b>	<b>2,324</b>	<b>1,945</b>
Total comprehensive income allocated to non-controlling interests	81,341	23,590	(183)	(888)	1,139	953

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 22. Investment in subsidiaries (continued)

### 22.3 Summarised financial information on subsidiaries with material non- controlling interests (continued)

#### 22.3.3 Summarised statement of cash flows

	ABC Capital Uganda		ABC Capital Limited		ABC Insurance Brokers	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Net cash from operating activities	(211,691)	285,244	1,682	(11,644)	1,984	9,592
Net cash from investing activities	(22,919)	(30,327)	-	6,943	(7,829)	2,125
Net decrease in cash and cash equivalents	(234,610)	254,917	1,682	(4,701)	(5,845)	11,717
Cash and cash equivalents at 1 January	533,603	278,686	42,606	47,307	46,323	34,606
<b>Cash and cash equivalents at 31 December</b>	<b>298,993</b>	<b>533,603</b>	<b>44,288</b>	<b>42,606</b>	<b>40,478</b>	<b>46,323</b>

## 23. Goodwill

	2023 Sh'000	2022 Sh'000
At cost	660	660

The goodwill relates to the acquisition of ABC Capital Bank, Uganda. The directors assessed the recoverable amount of the goodwill and have determined that the goodwill is not impaired.

## 24. Deposits and balances due to banking institutions

### 24.1 Balances due to Central Bank of Kenya:

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Reverse Repo	2,600,000	1,497,105	2,600,000	1,497,105
Interest on Reverse Repo	5,610	2,068	5,610	2,068
	<b>2,605,610</b>	<b>1,499,173</b>	<b>2,605,610</b>	<b>1,499,173</b>

### 24.2 Amount due to banking institutions:

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
In Kenyan Shillings	710,896	92,100	710,896	92,100
In foreign currency	784,557	337,105	784,557	445,087
	<b>1,495,453</b>	<b>429,205</b>	<b>1,495,453</b>	<b>537,187</b>

The weighted average effective interest rate at 31 December 2023 for balances due to banking institutions locally was 12.88% (2022: 8.59%) while that due to banking institutions abroad was 2.57% (2022: 3.12%).

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 25. Customer deposits

### 25.1 Analysis of customer deposits by product type:

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Current accounts	5,406,902	5,382,265	5,204,424	5,131,864
Savings accounts	1,334,247	1,315,669	1,044,273	988,917
Call deposits	1,608,837	1,876,487	1,608,837	1,876,487
Fixed deposits	24,531,332	21,649,449	24,050,331	21,317,801
Other	65,200	77,082	65,200	77,082
	<b>32,946,518</b>	<b>30,300,952</b>	<b>31,973,065</b>	<b>29,392,151</b>
Accrued interest	582,119	511,651	582,119	511,651
<b>Total</b>	<b>33,528,637</b>	<b>30,812,603</b>	<b>32,555,184</b>	<b>29,903,802</b>

### 25.2 Analysis of customer deposits by maturity:

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Payable up to one month	12,738,192	9,823,203	12,535,714	9,572,802
Payable within 90 days	10,407,254	9,812,142	9,892,109	9,336,426
Payable after 90 days but within one year	8,640,169	8,560,193	8,384,412	8,381,108
Payable after one year but within five years	1,743,022	2,617,065	1,742,949	2,613,466
	<b>33,528,637</b>	<b>30,812,603</b>	<b>32,555,184</b>	<b>29,903,802</b>

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2023 denominated in local and foreign currencies was 11.22% and 2.36% (2022: 7.76% and 0.92%) respectively.

The related party transactions and balances are covered under note 33 and concentrations of customer deposits are covered under Financial Risk Management disclosures in note 4.

## 26. Other liabilities

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Bills payable	25,134	-	24,823	-
Provision for leave pay	16,553	1,330	16,553	1,330
Trade payables	66,663	118,466	3,664	4,594
Unearned commission	6,664	26,267	6,664	26,267
Other payables and accruals	336,097	277,802	151,348	191,039
	<b>451,111</b>	<b>423,865</b>	<b>203,052</b>	<b>223,230</b>

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 27. Deferred taxation

The deferred tax asset (liability) is attributable to the following items:

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
<b>27.1</b>	<i>Deferred tax asset:</i>			
Leave pay provision	4,966	4,082	4,966	4,082
Impairment loss allowance	356,677	291,758	356,677	291,758
Other provisions	109,641	76,790	109,641	76,790
<b>Total deferred tax asset</b>	<b>471,284</b>	<b>372,630</b>	<b>471,284</b>	<b>372,630</b>
<b>27.2</b>	<i>Deferred tax liability:</i>			
Excess capital allowances over depreciation	2,296	(4,805)	2,296	(4,805)
<b>Net deferred asset</b>	<b>473,580</b>	<b>367,825</b>	<b>473,580</b>	<b>367,825</b>
<b>27.3</b>	<i>Net deferred tax asset is made up as:</i>			
At 1 January	148	79	-	-
Charge to profit or loss (note 12)	912	69	-	-
<b>Net deferred liability</b>	<b>1,060</b>	<b>148</b>	<b>-</b>	<b>-</b>
<b>27.4</b>	<i>Movement in deferred tax asset is as follows:</i>			
At 1 January	367,825	263,326	367,825	263,326
Credit to profit or loss (note 12)	105,755	104,499	105,755	104,499
<b>Net deferred asset</b>	<b>473,580</b>	<b>367,825</b>	<b>473,580</b>	<b>367,825</b>
At 31 December				
Charge to profit or loss (note 12)	912	69	-	-
Credit to profit or loss (note 12)	(105,755)	(104,499)	(105,755)	(104,499)
<b>Total deferred tax credit to profit or loss (note 12)</b>	<b>(104,843)</b>	<b>(104,430)</b>	<b>(105,755)</b>	<b>(104,499)</b>

## 28. Long term loan – Group and Bank

### 28.1 PE fund (Roundabout Finance Ltd & Starbridge Finance Ltd):

	2023 Sh'000	2022 Sh'000
Opening balance	104,683	96,026
Interest accrued/foreign exchange variation	28,133	8,657
	<b>132,816</b>	<b>104,683</b>

The total amount of long-term loans in 2023 was Sh 132,816,111.63 (2022: Sh 104,682,858.59).

# Notes to the annual financial statements (continued)

for year ended 31 December 2023

## 29. Share capital

### 29.1 Share capital – Group and Bank

	2023 Sh'000	2022 Sh'000
<b>Authorised:</b>		
210,000,000 ordinary shares of Sh 10 each (2022: 210,000,000)	2,100,000	2,100,000
<b>Issued and fully paid</b>		
105,000,000 ordinary shares of Sh 10 each (2022: 105,000,000)	1,050,000	1,050,000

### 29.2 Statutory reserve

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
At 1 January	800,342	794,660	789,947	794,660
Transfer (to)/from retained earnings	(69,870)	5,682	(71,535)	(4,713)
At 31 December	730,472	800,342	718,412	789,947

Central Bank of Kenya prudential guidelines and Bank of Uganda guidelines requires the Bank to make an appropriation to a statutory reserve for unforeseeable risks and future losses. The amount transferred is the excess of loan impairment provision computed in accordance with the Central Bank of Kenya prudential guidelines and Bank of Uganda guidelines over the provision for impairment of loan and advances arrived at in accordance with IFRS 9 on financial instruments.

## 30. Non-controlling interests - Group

	2023		2022	
	Ownership %	Amount Sh'000	Ownership %	Amount Sh'000
ABC Capital Uganda Limited	38.05	381,693	38.05	300,352
ABC Capital Limited	6.91	10,025	6.91	10,208
ABC Insurance Brokers Limited	49.00	11,461	49.00	10,322
At 31 December		403,179		320,882

	ABC Capital Uganda		ABC Capital Limited		ABC Insurance Brokers	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
At 1 January	300,352	276,762	10,208	11,096	10,322	9,369
Share of profit/(loss) for the year	(7,325)	9,763	302	(77)	1,139	953
Share of other comprehensive loss for the year	88,666	13,827	(485)	(811)	-	-
<b>At December</b>	<b>381,693</b>	300,352	<b>10,025</b>	10,208	<b>11,461</b>	10,322

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 31. Notes to the bank statement of cash flows

### 31.1 Reconciliation of profit before taxation to cash generated from operations

	Note(s)	Group		Bank	
		2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Profit before taxation		200,368	239,997	198,481	202,246
Adjustments for:					
Depreciation on property and equipment	19	43,589	53,221	33,018	46,210
Depreciation on right of use assets	20	79,461	80,706	61,145	60,682
Amortisation of intangible assets	21	31,658	33,790	18,515	21,812
Accrued interest expense		15,442	22,603	14,907	19,490
Gain/(loss) on disposal		(838)	-	-	-
Impairment loss on loans and advances	17	347,241	301,879	216,507	207,177
Write off of provision for impairment losses on loans and advances		(109)	(202)	(109)	(202)
Other net receivable adjustment		93,120	1,663	128,516	353,462
<b>Profit before working capital changes</b>		<b>809,932</b>	<b>733,657</b>	<b>670,980</b>	<b>910,877</b>
Movements in:					
Treasury bonds		(247,138)	(1,254,286)	(148,758)	(3,836,733)
Loans and advances to customers		(5,686,352)	(1,335,027)	(5,312,413)	(2,627,026)
Other assets		7,479	187,781	21,040	181,500
Customer deposits		2,716,034	(765,571)	2,651,382	2,660,478
Other liabilities		27,246	(176,469)	(20,178)	(117,800)
Investments in NSE		5,460	8,400	-	-
Related party balances		-	-	(149,292)	(217,850)
Cash generated from operations		<b>(2,367,339)</b>	<b>(2,601,515)</b>	<b>(2,287,239)</b>	<b>(3,046,554)</b>

### 31.2 Analysis of balances of cash and cash equivalents as shown in the statement of financial position

Cash on hand and balances with Central Banks	2,401,396	2,710,816	2,298,923	2,629,809
Treasury bills	313,469	214,795	-	-
Deposits and balances due from banking institutions	1,799,910	1,749,573	1,147,236	1,188,609
Deposits and balances due to banking institutions	(1,495,453)	(429,205)	(1,495,453)	(537,187)
Balances due to Central Bank of Kenya	(2,605,610)	(1,499,173)	(2,605,610)	(1,499,173)
	<b>413,712</b>	<b>2,746,806</b>	<b>(654,904)</b>	<b>1,782,058</b>

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 32. Contingencies and commitments including off statement of financial position items - Group and Bank

### 32.1 Contingent liabilities

	2023 Sh'000	2022 Sh'000
Letters of credit	19,215	488,077
Letters of guarantee	801,576	706,226
Acceptances	1,233,952	1,435,815
Bills in course of collection	3,889	470
Others	1,512,500	1,197,850
	<b>3,571,132</b>	<b>3,828,438</b>

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The bank expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the Group to make payments to third parties on production of documents. The amounts are subsequently reimbursed by customers. Guarantees are generally written by a bank to support the performance of a customer to third parties. The Group will only be required to meet these obligations in the event of the customers' default.

### 32.2 Capital commitments

	2023 Sh'000	2022 Sh'000
Authorised but not contracted for	47,889	42,060
Authorised and contracted for	23,006	45,886
	<b>70,895</b>	<b>87,946</b>

### 32.3 Commitments to extend credit

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

### 32.4 Operating lease arrangements

#### 32.4.1 The Group as a lessor

Rental income earned during the year was Sh 609,000.00 (2022: Sh 609,000.00). At the end of the reporting period, the Group had contracted with tenants for the following future lease receivables:

	2023 Sh'000	2022 Sh'000
Within one year	609	609
In the second to fifth year inclusive	1,065	1,065
	<b>1,674</b>	<b>1,674</b>

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 33. Related party transactions

Included in loans and receivables are amounts advanced to certain directors and to companies in which directors are involved either as shareholders or directors (related companies). In addition, contingent liabilities include guarantees and letters of credit which have been issued to associated companies. The following transactions were carried out with related parties:

	Directors		Related companies	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
<b>33.1 Outstanding loans and receivables</b>				
At 1 January	41,847	35,529	122,419	214,621
Advanced during the year	11,153	8,020	296,202	232,972
Interest charged	4,311	3,542	38,625	23,152
Repayments during the year	(6,654)	(5,244)	(277,684)	(348,326)
At 31 December	50,657	41,847	179,562	122,419
<b>Interest earned</b>	<b>4,311</b>	<b>3,542</b>	<b>38,625</b>	<b>23,152</b>
<b>33.2 Deposits</b>				
At 1 January	125,726	85,328	233,877	178,746
At 31 December	143,913	125,726	142,192	233,877
<b>Interest paid</b>	<b>2,531</b>	<b>2,531</b>	<b>9,024</b>	<b>9,024</b>
<b>33.3 Contingent liabilities</b>				
At 31 December	-	-	3,000	3,000
<b>33.4 Due from related parties</b>				
ABC Capital Kenya Limited			63,727	51,377
ABC Financial Services Limited			6,854	5,935
ABC Capital Bank Uganda Limited			72,823	159,155
ABC Insurance Brokers Limited			5,888	1,383
			<b>149,292</b>	<b>217,850</b>
<b>33.5 Due to related parties</b>				
ABC Capital Kenya Limited			62,803	49,701
ABC Insurance Brokers Limited			40,517	45,654
ABC Capital Bank Uganda Limited			157,755	279,994
			<b>261,075</b>	<b>375,349</b>

# Notes to the annual financial statements (continued)

for the year ended 31 December 2023

## 33. Related party transactions (continued)

### 33.6 Loans and receivables to management staff - Bank

As at 31 December 2023 loans and receivables to management staff amounted to Sh 185,566,673 (2022: Sh 207,446,794) and the interest earned thereon was Sh 14,917,389 (2022: Sh 15,853,068). Loans and receivables to other staff amounted to Sh 185,191,700 (2022: Sh 230,657,206).

The loans and receivables to related parties are performing and are fully secured.

### 33.7 Key management compensation

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

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
<i>Key management</i>				
Salaries and other short term employment benefits	226,838	224,690	211,826	204,267
<i>Directors' remuneration</i>				
Fees for services as directors	8,023	7,744	4,870	4,920
Other emoluments	128,407	108,548	123,127	102,617
	136,430	116,292	127,997	107,537

## 34. Country of incorporation

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

## 35. Currency

The financial statements are presented to the nearest Kenya Shillings thousands (Sh'000) i.e., rounded to the nearest thousand shillings.