Prime Bank

PUTTING YOU FIRST

ANNUAL REPORT
& FINANCIAL STATEMENTS
2023

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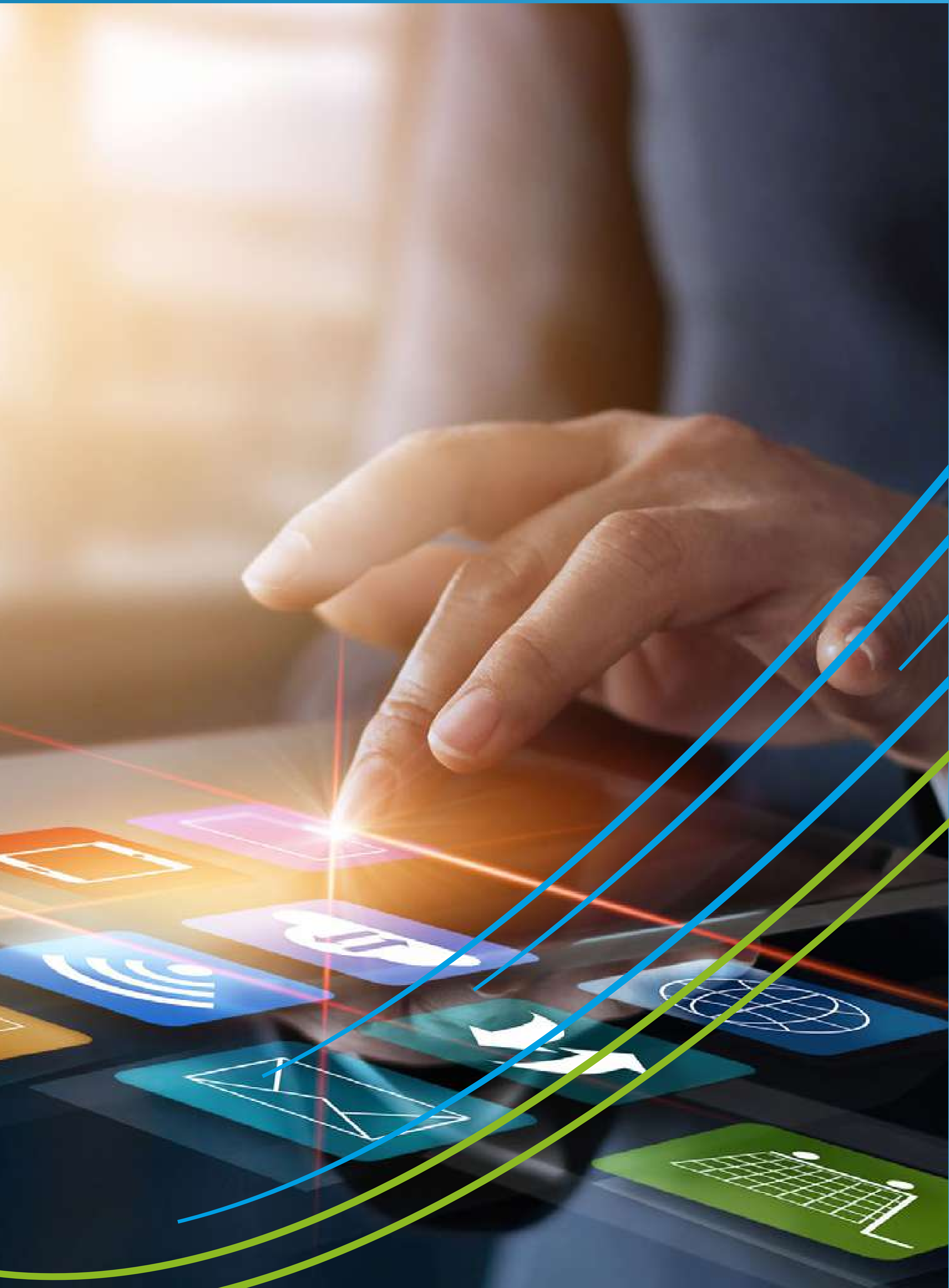
ABOUT PRIME BANK



OUR JOURNEY

Over the years, the Bank has established presence in other African countries such as Malawi, Botswana, Mozambique, Zambia, and in Zimbabwe through its correspondent partners and banks.

Who we are

Established in 1992, Prime Bank has been a cornerstone of Kenya's financial landscape for over three decades. With a steadfast commitment to excellence, innovation, and customer-centric solutions, we have emerged as a trusted partner for individuals, businesses, and communities across the nation and region.

Over the years, the Bank has established a presence in other African countries such as Malawi, Botswana, Mozambique, Zambia, and in Zimbabwe through its partners and correspondent banks.

In 2017, the group acquired 80.72% shareholding of Tausi Assurance Limited, since the acquisition Tausi Assurance Ltd has seen a steady growth of 25%.

We pride ourselves in providing:

Comprehensive product portfolio: Prime Bank offers a wide range of banking products and services tailored to meet the needs of individuals, businesses, and institutions. From personal banking to corporate finance, we provide holistic solutions to our clients.

Digital Transformation: Embracing the digital revolution, we are committed to leveraging technology to enhance the banking experience for our customers. Our innovative digital platforms PrimeNet and PrimeMobi enable seamless transactions, secure access to banking services, and personalized financial management tools.

Corporate Social Responsibility: We believe in giving back to society and are dedicated to making a positive impact on the communities we serve. Through our corporate social responsibility initiatives, we support education, healthcare, environmental sustainability, and community development projects, striving to create a more inclusive and equitable society.

Our Commitment:
At Prime Bank, we are committed to upholding the highest standards of corporate governance, transparency, and ethical conduct. Our team of seasoned professionals is dedicated to delivering superior service, building lasting relationships, and earning the trust and confidence of our customers and stakeholders.


year 2016

OUR VALUE SYSTEM

Integrity
We practice the highest standard of personal and corporate ethics in all our dealings.

Respect
We respect the unique contributions of every employee, valuing the diversity of their experiences, ideas and initiatives.

Teamwork
We become stronger as an organization through teamwork with our associates from all of our business areas.

Quality
We are committed to upholding the highest standards of professionalism, service and performance.

Social Responsibility
We care for and contribute to our communities.

Our Vision

To be the financial service provider of first choice.

Our Mission

To provide quality and acceptable personalized financial services to our customers while observing compliance, growth and shareholder value.

PRODUCT PORTFOLIO SOLUTIONS

CORPORATE BUSINESS & PERSONAL LOANS

TRANSACTIONAL BANKING

CASH MANAGEMENT SOLUTIONS

TRADE FINANCE

DIGITAL SOLUTIONS

INVESTMENTS

LOCAL NETWORK

21 Branches Countrywide

- NAIROBI
- THIKA
- MERU
- MOMBASA
- NAKURU
- ELDORET
- KISUMU
- KITALE

REGIONAL PRESENCE

- KENYA
- MALAWI
- ZAMBIA
- BOTSWANA
- ZIMBABWE
- MOZAMBIQUE

OUR PARTNERS

FIRST CAPITAL BANK

FMBcapital Holdings plc is the Mauritius-based holding company of the FMBcapital Group. It is listed on the Malawi Stock Exchange and has banking and finance operations in five SADC countries, namely Botswana, Malawi, Mozambique, Zambia and Zimbabwe.

The FMBcapital Group has consolidated its position as a leading regional commercial bank and its growing SADC footprint serves the cross-border banking needs of businesses operating in the sub-Sahara region.

AFRICINVEST

AfricInvest is an investment and financial services company based in Tunisia. Uniquely positioned as one of the most experienced private equity investors on the continent, AfricInvest has dedicated investment teams focused on Africa, and employs 90 professionals based in 11 offices.

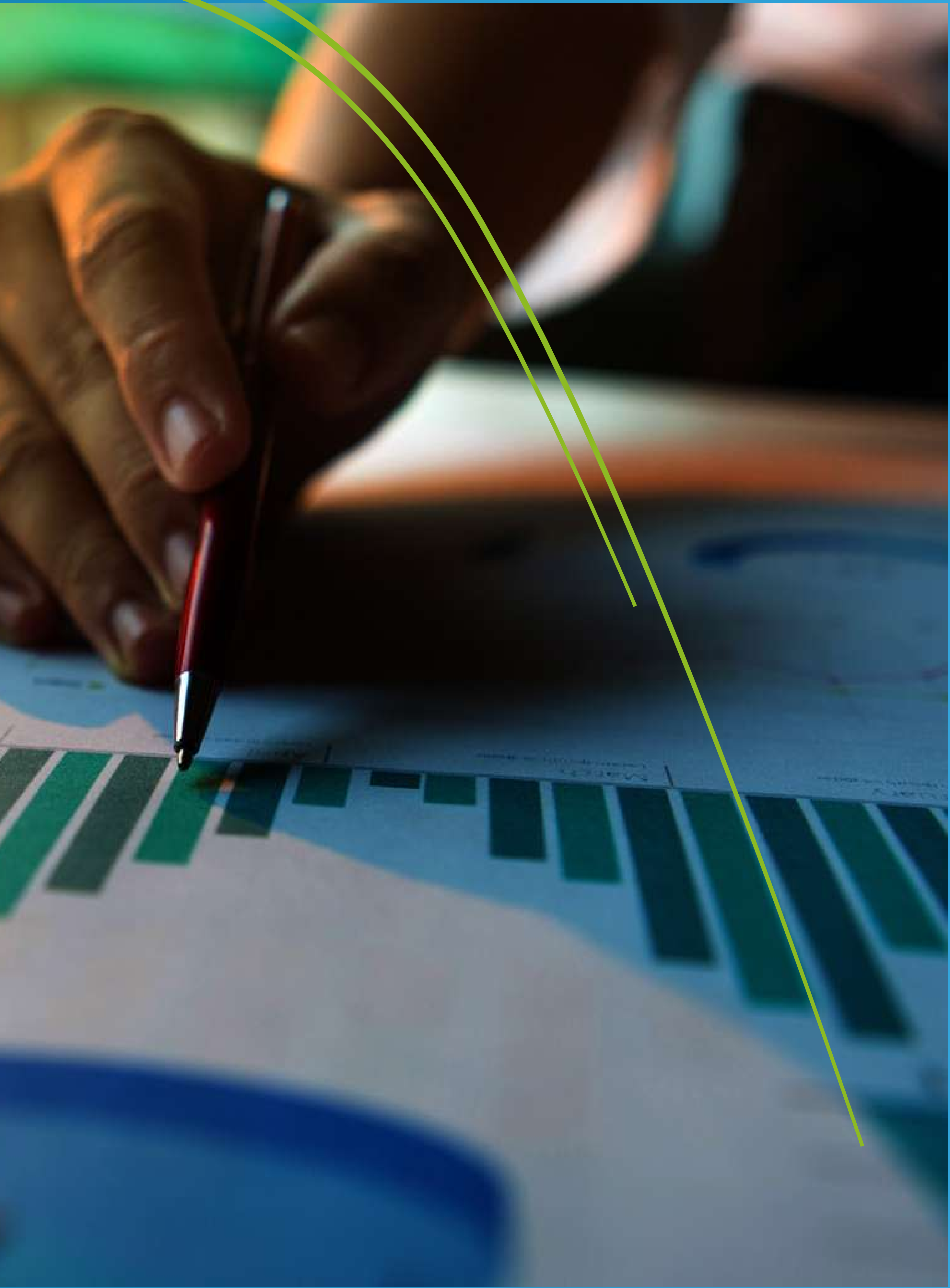
METIER

Metier is a South Africa based independent owner managed private equity firm founded in 2003. Metier operates two parallel investment practices, the Capital Growth practice that concentrates on mid-cap entrepreneurial businesses requiring growth capital in sectors which demonstrate emerging market growth, and the Sustainable Capital practice that targets investments in energy efficiency, renewables, water and waste management businesses and projects supporting Africa's development. Since its formation, Metier has grown to comprise a team of over 40 professionals with offices in Johannesburg, Mauritius and Nairobi, and representation in London.

TAUSI ASSURANCE

Tausi Assurance Company limited a leading Insurance company in Kenya with over 30 years of experience in writing a wide portfolio of insurance products. Established in 1992 in Westlands, Nairobi, with an initial capital of KES 20 Million, the company has grown over the years to become one of the most profitable general insurer in Kenya on the backdrop of its unique strategy of growth with profitability.

CORPORATE INFORMATION



BOARD OF DIRECTORS

Dr. Rasik C. Kantaria
CHAIRMAN

Dr. Rasik Kantaria is the founder and Chairman of Prime Bank Limited. He holds a Bsc (Economics) degree from London.

Dr. Kantaria is also the founder and Chairman of Prime Capital Holdings Limited. He is a co-founder and former Chairman of First Capital Bank (previously known as First Merchant Bank Limited Malawi). He is the Chairman of Tausi Assurance Company Limited.

Dr. Kantaria served as a director at the Deposit Protection Fund Board appointed by the Central Bank of Kenya. He is chairman and director of a number of companies in the tourism, real estate, and manufacturing industries.

He is a long standing Rotarian and for his outstanding contribution towards humanity, he has been conferred with an Honorary Doctor of Humanities Degree by The United Graduate College & Seminary, USA.

President of the Republic of Kenya H.E. William Ruto has also awarded Dr. Kantaria with the Head of States Commendation (HSC) civilian award for his exemplary service to the nation.

Mr. Shantilal K. Shah
VICE-CHAIRMAN

A Bachelor of Commerce (Honours) graduate and a practicing Accountant, Mr. Shantilal Shah is a FCA (Chartered Accountant, UK), a FCPA (Certified Public Accountant, Kenya) and a CPS (Certified Public Secretary, Kenya).

Mr. Shah is also a director at Tausi Assurance Company Limited.

Mr. Amar Kantaria
EXECUTIVE DIRECTOR

Mr. Amar Kantaria is a Bachelor of Arts (Honours) graduate and holds an MBA in International Management. Mr. Amar Kantaria was appointed as the Executive Director of Prime Bank Limited in 2008 after serving as Deputy Chief Executive for over five years. Mr. Amar Kantaria is also a Director at Tausi Assurance Company Limited since July 2010.

President of the Republic of Kenya H.E. Dr. William Samoei Ruto awarded Mr. Kantaria with the Head of States Commendation of Moran of the order of the Burning Spear (M.B.S) for his selfless service to humanity and serving the nation.

Mr. Terry Davidson
DIRECTOR

Mr. Terry Davidson is a veteran banker having spent 3 decades with Citibank in various geographies and capacities including Region Head for East and Southern Africa.

He was also Chief Executive Officer of Kenya Commercial Bank (KCB) for 5 years.

For the past few years, Mr. Davidson has worked as an independent consultant and currently serves as Chairman of FMBcapital Holdings plc, the Mauritius-based holding company of the FMBcapital Group (FMBCH) and Chairman of First Capital Bank Ltd, Malawi, the Malawian subsidiary of the group.

In addition, he is also Chairman of the Maa Trust, a Trustee of Gertrude's Children's hospital and an independent director of tourism company Nawiri Ltd.

He was previously a founder member of the Kenya Capital Markets Authority, a member of the Capital Markets Tribunal, the Kenya Deposit Protection Fund, Chairman of the Kenya Bankers Association and past council member of the University of Nairobi.

Mr. David G.M. Hutchison
DIRECTOR

Mr. David G. M. Hutchison joined the Prime Bank Board as a director in 2006. He is a Certified Public Accountant and a former Senior Partner of Ernst & Young Eastern Africa.

He has many years of experience in audit, tax advice and financial management, reconstruction and consulting covering various industry sectors, in a number of African countries. He is the current Chairman of Banda Group Educational and Property Groups.

He is a Non-Executive Director of ICEA Lion General Insurance Company Limited, ICEA Lion Life Assurance Company Limited, East Africa Reinsurance Company Limited, among others.

Mr. Jinaro K. Kibet
DIRECTOR

Mr. Jinaro Kipkemoi Kibet SC, was appointed to the board in 2014.

An Advocate of the High Court of Kenya of 34 years standing. He is one of the four founding Partners of TripleOKLaw LLP Advocates, a top tier City law firm where he is also the Senior Partner in the corporate and commercial department.

Prior to turning his attention to corporate- commercial work, he had a very successful career in litigation at which time he handled several landmark and high profile cases.

Mr. Kibet currently serves on several other boards including Unga Group PLC, Telkom Kenya, Automobile Association of Kenya among others.

BOARD OF DIRECTORS

Mr. Paul Botha
DIRECTOR

Mr. Paul Botha is a founder and the Chief Executive Officer of Metier, a pan African private equity fund manager specialising in Growth Capital and Sustainable capital investing. He is an Attorney and Notary Public by profession.

He specialises in mergers and acquisitions and cross-border work across several industries.

He has an outstanding record in executing more than 250 corporate transactions, of which the majority have involved private equity transactions and the entrepreneurial multi-disciplinary assignments which Metier targets.

Mr. Botha is a committed and effective deal-maker and board member with a reputation for getting things done to the highest standards of professionalism. He represents Metier as a board member in several portfolio companies.

He currently serves as the Chairman of the Africa Venture Capital Association.

Mr. Farid Mohamed
DIRECTOR

Mr. Mohamed was appointed to the Board in 2016.

A financial advisor to the private sector, Mr. Mohamed has over 25 years experience in structuring and arranging finance for projects ranging from large infrastructure in Europe, South East Asia and Latin America, to projects in East and Southern Africa, covering finance, industrial, energy (generation and transmission), and transportation (ports and roads) sectors.

He has regularly acted as an advisor to development finance institutions including the World Bank, IFC, DEG and KfW and currently advises public and private companies in Eastern Africa on the development of corporate strategy and arrangement of project and structured financing for new projects and for privatization of infrastructure.

Mr. Mohamed holds a Master of Science (MSc.) and Masters of Business Administration (MBA).

Mr. Skander Khalil Oueslati
DIRECTOR

Mr. Skander K. Oueslati joined the Prime Bank Board on 8th February 2020. He holds a Master's degree from Massachusetts Institute of Technology, USA, and Engineering degrees from France's Ecole Polytechnique and Ecole Nationale des Ponts et Chaussées.

Mr. Oueslati is currently the CIO and Deputy MD of AfricInvest Group. Prior to joining AfricInvest in 2008, Mr. Oueslati worked for BMCE Bank International in London and the International Finance Corporation in Washington DC, USA.

Mr. Oueslati has extensive investment management experience as well as board experience.

Mrs. Ruth Kinyanjui
DIRECTOR

Mrs. Ruth Kinyanjui is a Strategy, Tech and Financial Advisor. She holds nearly two decades in Executive advisory services.

She has previously worked for PricewaterhouseCoopers (PWC), KPMG East Africa and PKF East Africa among others. She enjoys working with organisational functions to meet world-class criteria in leadership through Strategy, risk, fund and wealth management, people, processes, technology, market intelligence, Project management and achieve next-level organizational success.. Her advisory spans different sectors in Eastern Africa, Sub-Saharan Africa, Europe, United States of America and Middle East.

Mrs. Kinyanjui sits in several boards among them Prime Bank, Mhasibu Sacco, Oasis of Endless Hope Centre and previously Rafiki Microfinance Bank.

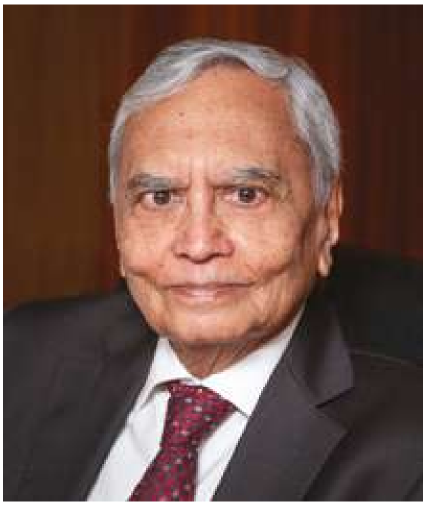
Mr. Rajeev Pant
CHIEF EXECUTIVE OFFICER

Mr. Rajeev Pant was appointed Chief Executive Officer in March 2023.

With over three decades of work experience, Mr. Pant has a wealth of expertise in Corporate Finance, International Banking, Financial Advisory Services, Business Development and Management cutting across the international banking arena and other geographies.

He has previously worked for Mashreq Bank, First Abu Dhabi Bank, Credit Agricole, National Australia Bank, Development Bank of Singapore, and HSBC.

Mr. Pant is an Associate Member of the Institute of Chartered Accountants of India and holds a Bachelor's Degree in Commerce.



Mr. Arun Shah
COMPANY SECRETARY

Mr. Arun Shah has vast experience in accounting and secretarial practice spanning over 40 years.

He was appointed Company Secretary of Prime Bank in 1992, having been involved in the formation of the Bank the same year.

He is a fellow of the Institute of Chartered Accountants in England & Wales. He is also an Associate Member of Institute of Certified Public Accountants of Kenya and Institute of Certified Secretaries of Kenya.

BANK'S INFORMATION

PRINCIPAL PLACE OF BUSINESS
L.R. 209/8571
Prime Bank Building
Riverside Drive
P.O. Box 43825 – 00100
Nairobi

REGISTERED OFFICE
L.R. 209/8890
Kenindia House
Loita Street
P.O. Box 43825 - 00100
Nairobi

LAWYERS
KIRUTI & COMPANY ADVOCATES
P. O Box 13160 - 00100
Nairobi

MACHARIA MWANGI & NJERU ADVOCATES
P.O. Box 10627 - 00100
Nairobi

A B PATEL & PATEL ADVOCATES
P. O. Box 80274 - 80100
Mombasa

MANDLA & SEHMI ADVOCATES
P. O. Box 48642 - 00100
Nairobi

MAHINDA & MAINA COMPANY ADVOCATES
P. O. Box 42508 - 00100
Nairobi

SECRETARY
A.H. SHAH
Company Secretary
P.O. Box 46559 - 00100
Nairobi

AUDITOR
DELOITTE AND TOUCHE LLP
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P. O. Box 40092 - 00100
Nairobi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CHAIRMAN'S STATEMENT

I am delighted to present to you Prime Bank Group's Annual Report and Financial Statements for the financial year 2023. The year has been one of challenges and opportunities, and I am proud to say that the Group has once again demonstrated its resilience and strength as is evident from the commendable results attained.

Despite the uncertainties and disruption brought about by various global events, the Group has remained steadfast in its commitment to delivering value to our shareholders, customers, employees and stakeholders. Our core values of integrity, innovation and excellence continue to be the guiding force behind our success.

Throughout the year, we have continued to invest in our people, processes and technologies to drive sustainable growth and enhance shareholder value. We have made significant strides in expanding our market presence, strengthening our competitive position and diversifying our interests.

Our financial performance reflects the effectiveness of our strategic initiatives and the hard work of our talented team. Despite the challenges posed by external environments, we have achieved robust revenue growth, improved profitability and solid cash flows.

Looking ahead, we remain cautiously optimistic about the future. While uncertainties persist, we are confident in our ability to navigate through challenges and capitalize on opportunities as they arise. With a clear strategic direction, a strong balance sheet and a dedicated team, we are well positioned to deliver long term value for all our stakeholders.

Operating Environment

Global economic growth remained resilient in 2023, with several large economies showing remarkable turnaround attributable to the continued recovery from the COVID-19 pandemic.

However, the geopolitical tensions of Russia and Ukraine, extreme weather conditions, and tight

Despite the uncertainties and disruption brought about by various global events, the Group has remained steadfast in its commitment to delivering value to our shareholders, customers, employees and stakeholders.

Dr. Rasik Kantaria
CHAIRMAN

financial conditions in trade played centre stage in the global arena, underlying the risks and vulnerabilities posed to emerging markets.

Kenya's economy grew by an average of 5.2 per cent, higher than the 4.8 per cent growth posted in 2022. This was mainly attributable to the turnaround in the agricultural sector, owing to fiscal policies such as subsidizing the costs of crucial farm inputs. On behalf of the Board, I am pleased to present Prime Bank Group's Annual Report and Financial Statements for the financial year ended 31st December 2023.

Summary of the Group's financial performance

During the period under review, the Group's performance remained robust, demonstrating the resilience of our business model coupled with strategic leadership and appropriate management skills.

Profit after before tax grew by 21 per cent to close the year at KShs. 4.7 Billion compared to KShs 3.8 Billion posted same period last year.

The Group's balance sheet expanded by 26 per cent to KShs. 168.7 Billion from KShs. 134 Billion. The Group's total net interest income grew by 12 per cent from KShs. 11.8 Billion to KShs. 14.7 Billion.

Corporate Governance and Board Changes

As a reputable financial institution, we continue to carry out regular review of our corporate governance structures in line with regulatory requirements. During the period under review, Mr. Paul Botha joined the board as a non-executive director upon resignation of Mr. Biniam Yohannes. Mr. Botha is a founder and the Chief Executive Officer of Metier Group – a private equity group based in South Africa.

Dividends and Annual GM

The board recommended and paid final dividend of KShs.165 per share for the year 2022 equivalent to a total sum of KShs.1, 097 Million. The Interim dividend declared and paid was KShs.75 per share, and was paid in 2022. During the period under review, the Bank paid an interim dividend of KShs.153 per share equivalent to KShs.1, 017 Million. The Board of Directors have proposed to pay a final dividend of Kshs.165 per share for the year 2023 equivalent to a total sum of KShs.1,097 Million.

Corporate Social Initiatives

During the period under review, the Bank remained steadfast in maintaining its corporate value of caring for communities it operates in.

The Bank launched a Feeding Program in Korogocho slum where over 500 school going children under the age of 10 are provided with nutritious lunch every day. The Bank is also training single mothers in the area to gain useful skills to sustain their families. This ongoing project is spearheaded by the Bank in partnership with the Office of The First Lady of Kenya.

We also collaborated with other corporates and community based organizations to donate 300 metric tons of relief food to support 20,000 families who were affected by the prolonged drought in northern Kenya.

In the course of the year, the Bank donated KShs. 1 Million to M.P. Shah Hospital and Healing Little Hearts Charity to support their mission aimed at treating 80 children with congenital heart diseases.

During Christmas, our staff paid a visit to Nyumbani Children's Home in Nairobi to share with the home the joy of the festive season.

We also joined hands with community-based organizations such as Hindu Council of Kenya, Asian Foundation, Nature Kenya, Giants Group of Nairobi, East Africa Swaminarayan Temple, and Ramagarhia Youth Association among others to support their community empowering initiatives.

Going Forward

Global growth is expected to remain moderate in 2024. The World Bank's Global Economic Prospects 2024, notes that growth is expected to slow down to 2.4 per cent, from the estimated 2.6 per cent in 2023, driven by global inflation, subdued global trade and investment, restrictive credit conditions, and the geopolitical tensions in the Russia-Ukraine conflict as well as ongoing conflict in the Middle East.

Kenya's economy is expected to grow at a rate of 5.2 percent in 2024, boosted by increased private sector investment resulting from reduced government borrowing from the domestic credit market.

We remain optimistic that the issuance of a fresh Eurobond this year is likely to ease the debt situation and lift the overall economic outlook for the country. We also expect reduced government borrowing with positive impact on market liquidity leading to reductions in lending rates.

While we celebrate the key achievements of 2023 and remain optimistic for the year 2024, let us be mindful of the multiple challenges that continue to buffet the country and be steadfast in our role to support efforts to mitigate the challenges.

Appreciation

Throughout the year, we have remained focused on executing our strategic initiatives aimed at driving long-term growth and sustainability. In 2023 our key focus was on digital transformation and the digitization of channels and processes for effective service delivery and improved internal controls.

The strong financial performance, sound financial and risk management recorded during the year could not have been possible without the commitment and dedication of our staff under the leadership of the Executive Director Amar Kantaria and Chief Executive Officer Rajeev Pant.

I highly appreciate the dedication and commitment of my fellow board members. I wholeheartedly thank them for their wise counsel and support throughout the year. I extend my appreciation to our regulators, in particular Central Bank of Kenya, Capital Markets Authority, the Treasury, and the Insurance Regulatory Authority for their invaluable guidance and support during the period under review.

I would like to express my sincere gratitude to our shareholders, customers, employees, and partners for their continued support and dedication. Our success would not be possible without their contribution and commitment to our shared vision.

Dr. Rasik Kantaria

Chairman

2023

CHIEF EXECUTIVE OFFICER'S STATEMENT

I am pleased to present to you our Annual Report for 2023. It has been a year of challenges and triumphs, and I am immensely proud of what we have achieved together as the Prime Bank team.

Despite the disruptions caused by global events, our commitment to excellence and resilience has remained unwavering. We have navigated through uncertainty with agility, adaptability and a steadfast focus on our core values.

Throughout the year, we have continued to innovate and drive growth across all facets of our business.

Furthermore, our robust financial performance is a testament to the hard work and dedication of our talented team. We have achieved significant milestones in revenue growth and profitability, demonstrating the effectiveness of our strategic initiatives.

Operating Environment

Against the backdrop of a challenging macro-economic environment, Prime Bank remained resilient in 2023.

However, as an industry the ratio of Non-performing Assets to gross loans for the sector increased to an average of 15% as recorded in September 2023 reflecting the macro economic headwinds.

Performance

Loans and Advances grew by 7.6 per cent, with KShs. 55.7 Billion disbursed to customers, up from KShs. 40.9 Billion in 2022. Keeping to our conservative approach towards credit & lending, we are pleased to share that our Net NPL ratio as of 31st December, 2023 was only 2.6%.

Total Deposits grew by 19 per cent to close the year at KShs. 127.6 Billion compared to KShs. 107.6 Billion recorded in 2022.

Profit for the year stood at KShs. 4.23 Billion, a 19 per cent increase compared to KShs. 3.54 Billion reported in 2022.

The Bank's Total Assets expanded by 21 percent to KShs. 169 Billion at 31st December 2023 from KShs. 140 Billion posted in December 2022.

The Bank maintained a strong capital adequacy position, ending the year with Core Capital of KShs. 27.4 Billion against Central Bank of Kenya's statutory requirement of KShs. 1Billion.

Operational Highlights

In the course of the year 2023, we continued our digital transformation journey, which saw a major upgrade of our Core Banking System. The Bank is now running on the latest and most advanced version of the Finacle Core Banking System with improved features, enhanced security, and faster performance - all designed for a better experience for you.

Against the backdrop of a challenging macro-economic environment, Prime Bank remained resilient in 2023.

MR. Rajeev Pant
CHIEF EXECUTIVE OFFICER

We also upgraded our internet-banking platform, PrimeNet, to offer more self-service functions to customers.

During the period under review, we improved the user experience on our mobile banking app, PrimeMobi, with the addition of Prime Prepaid Multicurrency Card onto the App. Prepaid Cardholders can now access their Cards on PrimeMobi to re-load it, view transactions and view balances among other services.

We also opened an ATM lobby at Signature Mall along Mombasa Road. This ATM lobby enables customers to make cardless transactions, faster deposits to any account within Prime Bank with instant cash credit, among other functions.

Moving Forward

The uncertainty within the global environment remains a risk factor for emerging economies including Kenya.

The year ahead could see the economy facing into various challenges many of which are beyond its control such as geographical risk events, volatile commodity prices and inflation pressures locally.

In the financial sector, the rise in Non-Performing Assets (NPAs) remains a concern.

All this notwithstanding, we remain optimistic on the back of various events and measures such as improved rainfall, prepayment of external debt and steps taken to stabilize the Kenyan Shilling. We have already seen the positive inpact of some of these and hope this remains for the year.

The strong continuing support from external investors and multi- lateral agencies shows the world view on supporting Kenya consistently. This has also helped Kenya further improve its economy.

At Prime Bank, the year ahead provides us an opportunity to explore newer ways to support our valued customers. To raise the bar on customer service, our digital transformation journey will continue to allow us to offer personalized products and services along with a better customer experience.

In line with our expansion program, the Bank is keen on pursuing partnerships with companies with shared vision across the financial services space and in the region.

We are also augmenting our footprint in Kenya with the launch of our new product offering called Prime Express. These will be full service outlets located conveniently near our customers. Leveraging technology, these service outlets will meet most of our customers banking needs digitally.

Conclusion

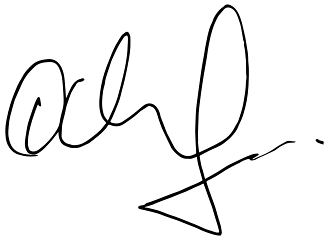
Our customers are our greatest assets. I take this opportunity to thank them for their continued trust and loyalty giving us the encouragement to innovate and always strive to meet and exceed their banking expectations.

I also express my gratitude to the Board of Directors, under the leadership of Dr. Rasik Kantaria, for their stewardship and counsel throughout the period under review. The executive management team has provided sound day-to-day leadership of the Bank and its Subsidiaries, enabling us to achieve impressive results.

I thank our shareholders for the confidence they continue to show in us and their unwavering support.

I also thank the regulators and policymakers with whom we continue to maintain a cordial relationship as we reaffirm our continuous commitment to compliance.

To our staff, I would like to express my heartfelt gratitude for your focus and commitment during this period – thank you for your commendable teamwork that led to the impressive performance.



Mr. Rajeev Pant

Chief Executive Officer

Report of Directors
FOR THE YEAR ENDED 31 DECEMBER 2023

The Directors have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2023.

Incorporation
The Bank is domiciled in Kenya where it is incorporated as a private company limited by shares. It is governed by the Companies Act, 2015 of the Laws of Kenya. The address of the registered office is set out on page 28.

Directorate
The directors who held office during the year and to the date of this report are set out on page 6. In accordance with Article 91 of the Articles of Association Mr. T.M Davidson and Mr.J.K Kibet retire by rotation and, being eligible, offer themselves for re- election.

Principal activities
The principal activities of the Bank are corporate and retail banking services while its subsidiaries provide general insurance services with the exception of aviation insurance services as well as insurance agency services.

Dividend
The directors recommended and paid final dividend of Kshs.165 per share for the year 2022 equivalent to a total sum of Kshs.1,097 million (Interim dividend declared and paid was Kshs.75 per share) and was paid in 2022.

During the year the Bank paid an interim dividend of Kshs.153 per share equivalent to Kshs.1,017 million.The directors have proposed to pay a final dividend of Kshs.165 per share for the year 2023 equivalent to a total sum of Kshs.1,097 million.

Statement as to disclosure to the Bank's auditor
With respect to each director at the time this report was approved:

(a) There is, so far as the person is aware, no relevant audit information of which the Bank 's auditor is unaware; and

(b) The person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

Report of Directors
FOR THE YEAR ENDED 31 DECEMBER 2023

Terms of appointment of the auditor
Deloitte & Touche LLP continue in office in accordance with the Company's Articles of Association and section 719 of the Kenya Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of Kshs.8.6 million has been charged to profit or loss in the year.

Business review
Total assets of the Group grew from Kshs. 142.6 billion in 2022 to Kshs. 168.7 billion in 2023; deposits grew from Kshs. 107.2 billion to Kshs. 127.1 billion in 2023, while Group profit after tax increased by 21% from Kshs. 3.7 billion to Kshs. 4.5 billion in 2023.

Management is aware of the liquidity risks that are inherent in the Banking sector and have maintained the Bank's liquidity ratio average at 73.4% which is 53.4% above the 20% requirement under CBK regulations.The Bank continues to cross sell products and services between banking and insurance clients which is expected to boost performance in the future.

Staff training and hiring of new talent is at the heart of Prime Bank's long-term growth plans.

Future outlook
Global growth is expected to decelerate from 3.0% in 2023 to 2.9% in 2024 reflecting the impact of high interest rates in advanced economies weakening demand and heightened geopolitical tension which continue to weigh down on economic activity.

Kenyan economy continued with strong performance with GDP growing to 5.4% in Q2 2023 compared with 5.2% in similar quarter in previous year.

Despite global uncertainties and the difficult economic environment of high interest rates and deteriorating exchange rate which may impact businesses and households negatively the economy is bound to perform boosted by the agricultural sector and diaspora remittances.

The Bank continues to advance its digital transformation journey and has upgraded its core banking system with superior features to address the changing technological needs of its customers.

Approval of financial statements
The financial statements were approved at a meeting of the Board of Directors held on 25th March 2024.

By order of the board

....
Company Secretary

Nairobi, Kenya

Statement of Directors' Responsibilities

The Kenya Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Bank as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Bank keeps proper accounting records that: (a) show and explain the transactions of the Bank; (b) disclose, with reasonable accuracy, the financial position of the Bank; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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

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

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

(ii) Selecting suitable accounting policies and applying them consistently; and

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

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

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

Approved by the board of directors on 25th March 2024 and signed on its behalf by:

....	....
Director	Director
....	....
Director	Secretary

Statement of Corporate Governance on the Financial Statements

Introduction
Prime Bank Limited recognises the need to conduct its business with integrity and in line with the generally accepted corporate practice. The Bank will strive to maintain the highest standards of corporate governance.

Shareholders' Responsibilities
The shareholders' role is to appoint the Board of Directors and independent auditors. The role of the shareholders is to ensure that the Board is accountable for effective and efficient governance.

Board of Directors
The Board of Directors is responsible for the governance of the Bank and to ensure that the Bank complies with the law and the highest standards of corporate governance and business ethics. The Board is responsible for the long term growth and profitability of the Bank.

The Directors guide the management and maintain full and effective control over financial, strategic, operational and compliance issues of the Bank. The Board is chaired by a non-executive director and has eight other non-executive directors, an executive director and the Managing Director. The Board meets regularly and holds special meetings as and when the situation demands.

Attendance of Directors at Board Meetings
Number of Board Meetings held in 2023 - 7

Name of Director	Number of meetings attended
Mr. R. C. Kantaria (Chairman)	7
Mr. S. K. Shah (Vice Chairman)	7
Mr. A. R. Kantaria (Executive)	6
Mr. D. G. M. Hutchison	6
Mr. T. M. Davidson	6
Mr. J. K. Kibet	5
Mr. F. Mohamed	6
Mr. S. Oueslati	7
Mrs. R. Kinyanjui	6
Mr. P. Botha	4

Board Performance Evaluation
As per the Prudential Guidelines of the Central Bank of Kenya, the Board is responsible for ensuring that an evaluation of its performance as well as that of the individual directors and various committees is done. The results of such an evaluation are to be provided to the Central Bank of Kenya.

The Board conducted its evaluation and that of the members, the Chairman and the Board Committees. The aim was to assess their capacity and effectiveness relative to their mandates, and identify challenges that need to be addressed in the coming year. Each Board member was provided with the questionnaire before the Board meeting convened to discuss the evaluation. At the Board meeting, the ratings given by each member of the Board and its committees were discussed by all members under the direction of the Chairman of the Board. Overall ratings were agreed taking into account the individual ratings and comments. Overall, the Board concluded that it was operating in an effective manner.

The Board has appointed 7 board committees – Strategy, Credit, Debt Management, Audit, Risk and Compliance, IT, and Human Resource and Nomination Committee and 2 management committees – Operations and Assets and Liability Management committees. These committees have been given terms of reference and they meet regularly. These committees make recommendations to the Board on matters which fall under their mandates.

A. Board Committees

Strategy Committee
The Strategy Committee is headed by Mr. T. Davidson who is a non-Executive Director. Mr. Skander Oueslati, non - Executive Director, Mr. A Kantaria, Executive Director are the other members of the committee. Its objectives are to discuss, review and recommend to the Board the overall strategy and changes thereto including the business plan and to adopt appropriate business strategy, approve annual budgets, capital raising plans, asset acquisitions

and disposals, incurrence of overhead or capital expenditures, any re-organizational changes and other strategy related matters

Credit Committee

Mr. Farid Mohamed, a non-Executive Director chairs the Credit Committee. Mr. Skander Oueslati a non-Executive Director, Ms, Ruth Kinyanjui , a non-Executive Director and Mr. A. R. Kantaria, Executive Director are the other members of the Committee. Specific responsibilities of the committee are:

i) To provide direction to credit management from a credit strategy perspective.
ii) Overview credit portfolio, terms & conditions of all credit facilities granted by sanctioning authorities within their delegation powers and ratify them, granting facilities falling under the jurisdiction of the Committee and recommending proposals beyond the power of the committee to the Board for approval.

Debt Management Committee

This Committee is chaired by Mr. Jinaro Kibet who is a non - Executive Director. Mr. Farid Mohamed, a non-Executive Director and Mr. A. Kantaria, Executive Director are the other members of this Committee. Specific responsibilities of the committee are to periodically review the health of the credit portfolio and take corrective measures for recovery and follow up to ensure that NPA is kept at a minimum.

Audit Committee

The Audit Committee is chaired by Mr. S. K. Shah who is a non-Executive Director. Mr. T. Davidson, non - Executive Director and Mr. J.K. Kibet, non-Executive Director are the other members of this Committee. The Committee assists the board in discharging its duties in relation to financial reporting, asset management, internal control systems, processes and procedures and monitors the quality of both the external and internal audit functions and then discusses risk exposure areas. Wherever review process reveals cause for concern or scope for improvement, it makes recommendations to the board on remedial actions. The objective of Internal Audit is to provide the committee with reliable, valued, insightful and timely assurance on the effectiveness of governance, risk management and controls over current and evolving risks in the context of the current and expected business environment.

Risk and Compliance Committee

The Risk and Compliance Committee is headed by Mr. S. K. Shah who is a non-Executive Director. Mr. T. Davidson, Ms. Ruth Kinyanjui, a non-Executive Director and Mr. Paul Botha non-Executive director are the other member of this Committee. The committee reviews the risk, ascertains causes of concern and suggests the scope of improvement.

IT Committee

Mr T. Davidson, a non-Executive Director chairs this Committee, Mr. David Hutchison, non-Executive Director and Mr A. Kantaria, Executive Director are the other members of this Committee. Its main objectives are to review and approve effective mechanisms for supplying IT facilities and infrastructures and to recommend IT strategy in light of changing technology and other external factors. It also reviews IT projects and provides guidance on the same. It also ensures compliance and tracking of regulatory IT requirements including cyber security risks besides addressing the risks as determined.

Human Resource & Nomination Committee (HRNC):

The HR and Nomination committee is headed by J.Kibet, a non-Executive Director. Other members include Mr S Oueslati, non-Executive Director, Mr A. Kantaria, Executive Director. The committee is responsible to align the Bank's HR strategy for Key Managment staff to its overall strategy and to ensure that the Bank's HR policy, processes and practices meet relevant regulatory requirements and to the extent possible are aligned to best practice.

B. Management Committees

Assets and Liability Management Committee (ALCO)

This Committee is chaired by the CEO. The Executive Director, the Chief Operating Officer, Chief Manager (Treasury), Deputy General Manager (Credit) and the Chief Finance Officer are the other members of the Committee. This Committee monitors the liquidity position of the Bank and the compliance with regard to statutory liquidity ratio, cash reserve ratio and foreign exchange exposure as per the prudential guidelines of the Central Bank of Kenya. The Committee decides on investments in various securities to maximise the returns. It also analyses the interest rate risk and fixes the interest rates in line with the market trends.

Operations Committee

The Operations Committee is chaired by the Chief Operating Officer and comprises of the Deputy Chief Operating Officer, Head of Risk, Head of Audit, Chief Finance Officer and Deputy General Manager (IT). The Committee reviews various operational procedures of the Bank and decides on changes to be effected to improve operational efficiency, improve service delivery and minimise manual procedures.

Employees

The Bank adheres to the Banking code of ethics which requires all employees to conduct business with high integrity. The staff members sign a declaration of fidelity and secrecy.

Publication of accounts

The Bank publishes its results every quarter in the newspapers as per the Prudential Guidelines of Central Bank of Kenya. Financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of all relevant statutes, rules and regulations.

Report of the Independent Auditors to the Members of Prime Bank Limited

Report on the audit of the financial statements

Our opinion
We have audited the accompanying financial statements of Prime Bank Limited (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries (together, the "Group"), set out on pages 48 to 135, which comprise the consolidated and bank statement of financial position as at 31 December 2023 and consolidated and bank statements of profit or loss, consolidated and bank statement of other comprehensive income, consolidated and bank statement of changes in equity and consolidated and bank statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2023 and of their financial performance and 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 (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Bank 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, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other Information
The Directors are responsible for the other information. The other information comprises the statement of Directors responsibilities and the Report of the Directors as required by the Kenyan Companies Act, 2015 and the Statement of Corporate Governance, which were obtained prior to the date of this report. The other information does not include the Group and the Bank financial statements and our auditors' report thereon.

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

Report of the Independent Auditors to the Members of Prime Bank Limited (Continued)

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

We also:

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

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

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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause Bank and/or its subsidiary to cease to continue as going concerns.

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

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

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

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

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

Report of the Directors

In our opinion, the information given in the report of the directors on pages 34 to 35 is consistent with the accompanying bank and consolidated financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Eshak Adam Harunani, Practising certificate No. A/0018.

For and on behalf of Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Nairobi.

27th March 2024.

2023 MILESTONES

01

CORE BANKING SYSTEM MIGRATION

In the course of the year 2023, the Bank embarked on a digital transformation journey, which saw major upgrade of our Core Banking System. The Bank is now running on the latest and most advanced version of the Core Banking System with improved features, enhanced security, and faster performance, all designed for a better experience for you.

02

UPGRADE OF PRIMENET

During the period under review, the Bank upgraded our internet-banking platform PrimeNet with advanced technology to offer more self-service functions to customers.

03

PREPAID USER EXPERIENCE

During the year 2023, we improved the user experience on mobile banking app PrimeMobi by adding the Prime Prepaid Multicurrency Card on the App. Prepaid Cardholders can now access their Cards on PrimeMobi to:

Load it.
View transactions.
View balances among other services.

04

SMART ATM LOBBY

The Bank opened a SMART ATM lobby at Signature Mall along Mombasa Road. The ATM lobby provides multifunctional capabilities to enable customers make cardless transactions, faster deposits to any account within Prime Bank with instant cash credit, while enjoying no queues. The opening of this lobby aims to develop the Bank's digital banking solutions not only to transform our customers' experience but also to provide the highest levels of security at your convenience.

05

MARKET SHARE

The Bank's Assets stands at over KShs.166 Billion, placing it as 11^{th} largest Bank in Kenya with a 2.6% market share of the industry.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	NOTE	2023 KSHS. '000	RESTATED* 2022 KSHS. '000	RESTATED* 2021 KSHS. '000
ASSETS				
Cash and balances with the Central Bank of Kenya	5	7,065,401	6,562,838	6,330,041
Placements and balances with other banks	6	22,541,288	11,060,793	8,957,230
Treasury bills and term notes	7	4,187,840	11,008,088	20,499,366
Investment in securities measured at amortised cost	8	41,573,438	35,157,808	33,941,047
Investment in securities at fair value through other comprehensive income	9	21,306,766	27,250,090	12,657,390
Investment in ordinary shares at fair value through other comprehensive income	10(a)	9,002,556	4,653,115	3,973,133
Investment in ordinary shares-at fair value through profit or loss	10(b)	66,133	83,696	99,497
Tax recoverable	24	9,058	65,049	87,396
Loans and advances	11	55,777,417	40,950,360	37,974,486
Reinsurance contract assets	12	289,331	217,508	203,687
Other assets	13	1,262,673	1,079,683	710,270
Right of use - leasehold land	15	797,006	653,699	658,373
Property and equipment	16(a)	1,927,656	1,697,126	1,434,634
Right of use asset	17	260,557	285,606	238,359
Intangible assets	18	1,026,952	766,623	796,197
Deferred tax asset	19	1,601,418	1,141,468	-
TOTAL ASSETS		**168,695,490**	**142,633,550**	**128,561,106**
LIABILITIES AND EQUITY				
LIABILITIES				
Balances due to banks and financial institutions	20	8,185	3,001	22,070
Deposits from customers	21	127,129,370	107,186,713	96,864,456
Insurance contract liabilities	12	1,160,196	975,077	880,189
Lease liabilities	22	287,344	314,667	267,549
Other liabilities	23	1,432,378	1,134,256	845,328
Deferred tax liability	19	69,156	68,767	119,711
TOTAL LIABILITIES		130,086,629	109,682,481	98,999,303
EQUITY				
Share capital	25	6,649,390	6,649,390	6,649,390
Share premium	26	5,230,109	5,230,109	5,230,109
Other reserves	27	25,158,438	19,537,688	17,265,042
Proposed dividends	38	1,097,149	1,097,149	-
Equity attributable to equity holders of the parent		38,135,086	32,514,336	29,144,541
Non-controlling interests		473,775	436,733	417,262
TOTAL EQUITY		38,608,861	32,951,069	29,561,803
TOTAL LIABILITIES AND EQUITY		**168,695,490**	**142,633,550**	**128,561,106**

These financial statements on pages 48 to 135 were approved by the Board of Directors on 25th March 2024 and signed on its behalf by: -
*Refer to note 41 to the financial statements.

Director Director Director Director

BANK STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	NOTE	2023 KSHS. '000	2022 KSHS. '000
ASSETS			
Cash and balances with the Central Bank of Kenya	5	7,063,416	6,564,442
Placements and balances with other banks	6	22,526,914	11,014,984
Treasury bills and term notes	7	4,187,840	11,008,088
Investment securities measured at amortised cost	8	39,806,932	33,766,758
Investment in bonds at fair value through other comprehensive income	9	20,604,638	26,519,721
Investment in ordinary shares at fair value through other comprehensive income	10(a)	8,931,113	4,564,249
Tax recoverable	24	-	12,755
Loans and advances	11	55,755,512	40,923,643
Other assets	13	1,185,388	1,054,384
Investment in subsidiaries	14	1,405,692	1,405,692
Right of use - leasehold land	15	707,040	565,000
Property and equipment	16(b)	1,666,406	1,454,129
Right of use assets	17	260,557	285,606
Intangible assets	18	362,190	107,504
Deferred tax asset	19	1,601,128	1,141,468
TOTAL ASSETS		166,064,766	140,388,423
LIABILITIES AND EQUITY			
LIABILITIES			
Balances due to banks and financial institutions	20	8,185	3,001
Deposits from customers	21	127,555,375	107,583,684
Lease liability	22	287,344	314,667
Other liabilities	23	1,325,418	1,103,332
Tax payable	24	31,082	-
TOTAL LIABILITIES		129,207,404	109,004,684
EQUITY			
Share capital	25	6,649,390	6,649,390
Share premium	26	5,230,109	5,230,109
Other reserves	27	23,880,714	18,407,091
Proposed dividends	38	1,097,149	1,097,149
TOTAL EQUITY		36,857,362	31,383,739
TOTAL LIABILITIES AND EQUITY		166,064,766	140,388,423

These financial statements on pages 48 to 135 were approved by the Board of Directors on 25th March 2024 and signed on its behalf by: -

Director Director Director Director

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTE	2023 KSHS. '000	RESTATED* 2022 KSHS. '000
Interest income calculated using effective interest rate method	28	15,008,140	12,068,622
Interest expense	29	(8,124,172)	(5,921,453)
Net interest income		6,883,968	6,147,169
Fees and commission income	30	595,529	470,893
Foreign exchange gains		1,027,600	504,265
Dividend income		354,511	162,769
Insurance service result	31	262,395	214,527
Insurance revenue		2,042,049	1,593,715
Insurance service expenses		(1,417,353)	(1,102,789)
Net expense from reinsurance contracts		(362,301)	(276,399)
Net finance expense from insurance contracts issued		(38,766)	(48,133)
Net finance expense from reinsurance contracts held		10,154	12,034
Other income	32	95,353	84,979
		9,190,744	7,548,503
Allowance for impairment of financial instruments	33	(522,697)	(638,410)
Other operating expenses	34	(3,971,813)	(3,109,249)
Profit before tax	35	4,696,234	3,800,844
Income tax (charge)/credit	24	(192,349)	(51,064)
Profit for the year		**4,503,885**	**3,749,780**
Attributable to:			
Equity holders of the parent		4,411,190	3,680,688
Non-controlling interests		92,695	69,092
		4,503,885	3,749,780
Earnings per share (basic and diluted) (Kshs.):			
Attributable to:			
Equity holders of the parent (Kshs.)	36	663	553

*Refer to note 41 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

		2023 KSHS. '000	RESTATED* 2022 KSHS. '000
Profit for the year		4,503,885	3,749,780
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Fair value through other comprehensive income financial assets:			
Loss arising during the year	9	(1,078,028)	(548,819)
Deferred income tax on fair value gain		329,766	153,188
		(748,262)	(395,631)
Items that will not be reclassified to profit or loss in subsequent periods:			
Fair value gain on fair value through other comprehensive income - Equity investments	10(a)(i)	4,056,403	601,014
Deferred income tax credit on equity investments		784	886,625
		4,057,187	1,487,639
Revaluation of Land and Buildings		11,533	124,850
Deferred income tax expense on revaluation surplus		(3,460)	(37,454)
		8,073	87,396
Other comprehensive income for the year, net of tax		3,316,998	1,179,404
Total comprehensive income for the year, net of tax		**7,820,884**	**4,929,184**
Attributable to:			
Equity holders of the parent		7,737,981	4,867,481
Non-controlling interest		82,903	61,703
		7,820,884	**4,929,184**

BANK STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTES	2023 KSHS. 000	2022 KSHS. 000
Interest income calculated using effective interest rate method	28	14,679,876	11,798,441
Interest expense	29	(8,124,172)	(5,921,453)
Net interest income		6,555,704	5,876,988
Fees and commission income	30	595,529	470,893
Foreign exchange gains		1,027,600	504,265
Dividend income		582,919	322,589
Other income	32	53,840	75,167
		8,815,592	7,249,902
Allowance for impairment of financial instruments	33	(522,697)	(638,410)
Other operating expenses	34	(3,949,664)	(3,088,449)
Profit before tax	33	4,343,231	3,523,043
Income tax (expense)/credit	24	(108,755)	18,104
Profit for the year		4,234,476	3,541,147
Earnings per share (basic and diluted) (Kshs.)	36	637	533

BANK STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTES	2023 KSHS. '000	2022 KSHS. '000
Profit for the year		4,234,476	3,541,147
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Fair value through other comprehensive income financial assets:			
(Loss) arising during the year	9	(1,050,724)	(510,628)
Deferred income tax on fair value gain		329,766	153,188
		(720,958)	(357,440)
Items that will not be reclassified to profit or loss in subsequent periods:			
Fair value gain on fair value through other comprehensive income - Equity investments	10(a)(i)	4,073,827	616,334
Deferred income tax credit on equity investments		784	886,625
		4,074,611	1,502,959
Revaluation of Land and Buildings		-	117,350
Deferred income tax expense on revaluation surplus		-	(35,204)
		-	82,146
Other comprehensive income for the year, net of tax		3,353,653	1,227,665
Total comprehensive income for the year, net of tax		7,588,129	4,768,812

All of the profit for the year and total comprehensive income are attributable to equity holders of the Bank.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	SHARE CAPITAL KSHS.'000	SHARE PREMIUM KSHS. '000	RETAINED EARNINGS KSHS. '000	PROPOSED DIVIDENDS KSHS. '000	FVTOCI RESERVE KSHS. '000	STATUTORY LOAN RESERVE KSHS. '000	ASSET REVALUATION RESERVE KSHS. '000	TOTAL KSHS. '000	NON-CONTROLLING INTERESTS KSHS. '000	TOTAL EQUITY KSHS. '000
Balance at 1 January 2022 as previously reported	6,649,390	5,230,109	14,468,904	-	1,895,665	353,022	558,564	29,155,654	417,262	29,572,916
Impact of adopting IFRS 17 as at 1 January 2022	-	-	(8,971)	-	-	-	-	(8,971)	(2,142)	(11,113)
Restated balance as at 1 January 2022	6,649,390	5,230,109	14,459,933	-	1,895,665	353,022	558,564	29,146,683	415,120	29,561,803
Dividend paid - 2021	-	-	(997,406)	-	-	-	-	(997,406)	-	(997,406)
Dividend paid - 2022	-	-	(498,704)	-	-	-	-	(498,704)	(38,175)	(536,879)
Total comprehensive income:						-				
- Profit for the year	-	-	3,680,688	-	-	-	-	3,680,688	69,092	3,749,780
- Other comprehensive income /(loss) FVTOCI			-	-	1,102,325	-	86,384	1,188,709	(9,304)	1,179,405
Decrease in profit for PMIA	-	-	(5,634)			-		(5,634)	-	(5,634)
Proposed Dividends			(1,097,147)	1,097,147	-	-	-	-	-	-
As at 31 December 2022	**6,649,390**	**5,230,109**	**15,541,730**	**1,097,147**	**2,997,990**	**353,022**	**644,948**	**32,514,336**	**436,733**	**32,951,069**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	SHARE CAPITAL KSHS. '000	SHARE PREMIUM KSHS. '000	RETAINED EARNINGS KSHS. '000	PRO-POSED DIVI-DENDS KSHS. '000	FVTOCI RESERVE KSHS. '000	STATUTO-RY LOAN RESERVE KSHS. '000	ASSET REVAL-UATION RESERVE KSHS. '000	TOTAL KSHS. '000	NON-CON-TROLLING INTERESTS KSHS. '000	TOTAL EQUITY KSHS. '000
Balance at 1 January 2023 as previously reported	6,649,390	5,230,109	15,551,771	1,097,149	2,997,990	353,022	644,948	32,524,379	439,131	32,963,510
Impact of adopting IFRS 17 as at 1 January 2023	-	-	(10,042)	-	-	-	-	(10,042)	(2,399)	(12,441)
Restated balance as at 1 January 2023	6,649,390	5,230,109	15,541,729	1,097,149	2,997,990	353,022	644,948	32,514,337	436,732	32,951,069
Dividend paid-2022	-	-	-	(1,097,149)	-	-	-	(1,097,149)	-	(1,097,149)
Dividend paid-2023	-	-	(1,017,357)	-	-	-	-	(1,017,357)	(48,585)	(1,065,942)
Statutory loan reserve transfers	-	-	(846,651)	-	-	846,651	-	-	-	-
Total com-prehensive income:										
- Profit for the year	-	-	4,411,190	-	-	-	-	4,411,190	92,695	4,503,885
- Other compre-hensive loss –FVTOCI	-	-	-	-	3,317,548	-	6,517	3,324,065	(7,067)	3,316,998
Proposed dividend	-	-	(1,097,149)	1,097,149	-	-	-	-	-	-
As at 31 December 2023	**6,649,390**	**5,230,109**	**16,991,762**	**1,097,149**	**6,315,538**	**1,199,673**	**651,465**	**38,135,086**	**473,775**	**38,608,861**

BANK STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	SHARE CAPITAL KSHS. '000	SHARE PREMIUM KSHS. '000	RETAINED EARNINGS KSHS. '000	PROPOSED DIVIDENDS KSHS. '000	FVTOCI RESERVE KSHS. '000	STATUTORY LOAN RESERVE KSHS. '000	ASSET REVALUATION RESERVE KSHS. '000	TOTAL EQUITY KSHS. '000
Balance at 1 January 2022	6,649,390	5,230,109	13,440,805	-	1,895,705	353,022	542,006	28,111,037
Final Dividend paid-2021	-	-	(997,406)	-	-	-	-	(997,406)
Interim Dividend paid-2022(note 36)	-	-	(498,704)	-	-	-	-	(498,704)
Total comprehensive income:								
- Profit for the year	-	-	3,541,147	-	-		-	3,541,147
- Other comprehensive income	-	-		-	1,145,519	-	82,146	1,227,665
Proposed Dividends	-	-	(1,097,149)	1,097,149	-	-	-	-
At 31 December 2022	**6,649,390**	**5,230,109**	**14,388,693**	**1,097,149**	**3,041,224**	**353,022**	**624,152**	**31,383,739**
Balance at 1 January 2023	6,649,390	5,230,109	14,388,693	1,097,149	3,041,224	353,022	624,152	31,383,739
Final Dividend paid-2022	-	-	-	(1,097,149)	-	-	-	(1,097,149)
Interim Dividend paid-2023 (note 36)	-	-	(1,017,357)	-	-	-	-	(1,017,357)
Statutory Loan Reserve transfer			(846,651)	-	-	846,651	-	-
Total comprehensive income:								
- Profit for the year	-	-	4,234,476	-	-		-	4,234,476
- Other comprehensive income	-	-	-	-	3,353,653	-	-	3,353,653
Proposed Dividends			(1,097,149)	1,097,149	-			
At 31 December 2023	**6,649,390**	**5,230,109**	**15,662,012**	**1,097,149**	**6,394,877**	**1,199,673**	**624,152**	**36,857,362**

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTE	2023 KSHS. '000	RESTATED 2022 KSHS. '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,696,234	4,015,371
Adjustments for:			
(Gain)/loss on disposal of property and equipment	35	(3,588)	4,141
Dividends income		(354,511)	(162,769)
Interest income		(1,085,799)	(408,526)
Fair value loss on fair value through profit or loss	10(b)	17,562	15,801
Allowances for impairment of financial instruments	33	522,697	638,407
Amortisation of leasehold land	15	14,459	11,977
Depreciation of property and equipment	16(a)	204,439	180,859
Depreciation of right of use assets	17	103,724	102,896
Amortisation of intangible assets	18	129,956	58,179
Interest on lease liabilities	22	16,834	20,308
(Increase) in reinsurance contract assets		(71,823)	(13,821)
Increase in insurance contract liabilities		185,119	94,888
Operating cash flows before changes in:		4,375,303	4,557,711
Movement in restricted cash and balances with Central Bank of Kenya	5	(487,735)	(320,849)
Increase in treasury bills and term notes maturing after 91 days		(1,058,765)	(891,466)
(Increase) in loans and advances		(14,827,057)	(2,975,874)
(Increase) in other assets		(182,990)	(369,413)
Increase in deposits from customers		19,942,657	10,322,257
Increase in other liabilities		298,122	288,928
Cash flows generated from operating activities		8,059,535	10,611,294
Income taxes paid	24	(273,765)	(218,763)
NET CASH FLOWS FROM OPERATING ACTIVITIES		7,785,770	10,392,531
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		3,605	3,484
Dividend received		354,511	162,769
Interest received		1,085,799	408,526
Proceeds from redemption of investment securities measured at amortised cost	8	10,917,341	5,867,876
Proceeds from redemption of treasury bills and term notes	7	20,200,000	21,150,000
Proceeds from sale of investments in bonds measured at FVTOCI	9	13,829,751	1,857,664
Purchase of investment securities measured at amortised cost	8	(17,432,516)	(7,098,981)
Purchase of treasury bills and term notes	7	(13,304,787)	(11,663,099)
Purchase of investments in bonds measured at FVTOCI	9	(8,877,642)	(17,057,882)
Purchase of property and equipment	16	(417,071)	(335,557)
Purchase of intangible assets	18	(390,286)	(28,605)
NET CASH FLOWS GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**5,968,705**	**6,733,805**

CONSOLIDATED STATEMENT OF CASHFLOWS
(CONTINUED)

	NOTE	2023 KSHS. '000	RESTATED 2022 KSHS. '000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to equity holders of the parent	38	(2,114,506)	(1,496,113)
Dividends paid to non -controlling interests		(48,585)	-
Repayment of lease liabilities	22	(121,245)	(128,032)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(2,284,336)	(1,624,145)
Net increase in cash and cash equivalents		11,470,139	2,034,581
Cash and cash equivalents at 1 January		14,458,949	12,424,368
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	39	25,929,088	14,458,949

BANK STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTE	2023 KSHS. '000	2022 KSHS. '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,343,231	3,523,043
Adjustments for:			
Gain/(loss) on disposal of property and equipment		(3,588)	4,141
Dividend income		(582,919)	322,589
Interest income		(1,054,895)	(376,258)
Allowances for impairment of loans and advances	33	522,697	638,410
Amortisation of leasehold land	15	13,192	10,710
Depreciation of property and equipment	16(b)	191,841	169,418
Depreciation of right of use assets	17	103,724	102,896
Amortisation of intangible assets	18	120,296	51,580
Interest on lease liabilities	22	16,834	20,308
Operating cash flows before changes in:		3,670,413	4,466,837
Movement in restricted cash and balances with Central Bank of Kenya	5	(487,735)	(320,849)
Increase in treasury bills and term notes maturing after 91 days		(1,058,375)	(640,253)
Increase in loans and advances		(14,831,869)	(3,006,083)
Increase in other assets		(131,004)	(395,952)
Increase in deposits from customers		19,971,691	10,362,508
Increase(decrease) in other liabilities		222,086	296,586
Cash flows from operating activities		7,355,207	10,762,794
Income taxes paid	24	(194,028)	(163,748)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**7,161,179**	**10,599,046**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		3,605	3,484
Dividend received		582,919	(322,589)
Interest received		1,054,895	376,258
Proceeds from redemption of treasury bills and term notes	7	20,200,000	21,150,000
Proceeds from redemption of investment securities measured at amortised cost	8	10,538,801	5,867,876
Proceeds from sale of investments in bonds measured at FVTOCI	9	13,829,998	1,688,584
Purchase of treasury bills and term note	7	(13,304,787)	(11,663,099)
Purchase of investment securities measured at amortised cost	8	(16,675,054)	(6,669,000)
Purchase of investment in securities measured at FVTOCI	9	(8,877,642)	(17,007,380)
Purchase of property and equipment	16(b)	(404,195)	(326,192)
Purchase of intangible assets	18	(374,983)	(21,694)
NET CASH FLOWS GENERARED FROM /(USED IN) INVESTING ACTIVITIES		**6,572,557**	**(6,923,752)**

BANK STATEMENT OF CASHFLOWS
CONTINUED

	NOTE	2023 KSHS. '000	2022 KSHS. '000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid during the year	38	(2,114,506)	(1,496,113)
Repayment of lease liabilities	22	(121,245)	(128,032)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(2,235,751)	(1,624,145)
Net increase cash and cash equivalents		11,497,985	2,051,149
Cash and cash equivalents at 1 January		14,414,744	12,363,595
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	37	25,912,729	14,414,744

Notes to the Consolidated Financial Statements
AS AT 31 DECEMBER 2023

1. GENERAL INFORMATION
Prime Bank Limited is a financial institution licensed under the Kenyan Banking Act, Cap 488 that provides corporate and retail banking services in various parts of the country. The Bank is incorporated and domiciled in Kenya under the Kenyan Companies Act, 2015. The consolidated financial statements comprise the Bank and its subsidiaries together referred to as "the Group". The Group is primarily involved in corporate and retail banking and all classes of general insurance except for aviation insurance services as defined by section 31 of the insurance Act (Cap 487).

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES
Application of new and revised International Financial Reporting Standards (IFRSs)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2023

The following new and revised IFRSs were effective in the current year.

IFRS 17 Insurance Contracts (including the June 2020 and December 2021 Amendments to IFRS 17).

The group has adopted IFRS 17 and the related amendments for the first time in the current year. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Group has general insurance contracts that meet the definition of an insurance contract under IFRS 17. The group has restated the comparative information for 2022 and 2021 applying the transitional provisions of IFRS 17. The nature of the changes in accounting policies can be summarized, as follows:

a. Changes in classification and measurement
The adoption of IFRS 17 did not change the classification of the Group's insurance contracts. However, IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Group. Under IFRS 17, the Group's insurance contracts issued and reinsurance contracts held are all eligible to be measured by applying the Premium Allocation Approach (PAA) since they are less than one year. The PAA simplifies the measurement of insurance contracts in comparison with the general model in IFRS 17.

The measurement principles of the PAA differ from the 'earned premium approach' used by the Group under IFRS 4 in the following key areas:

- The liability for remaining coverage reflects premiums received less deferred insurance acquisition cash flows and less amounts recognized in revenue for insurance services provided.

- Measurement of the liability for remaining coverage includes an adjustment for the time value of money and the effect of financial risk where the premium due date and the related period of services are more than 12 months apart.

- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for non-financial risk when a group of contracts is onerous in order to calculate a loss component (previously these may have formed part of the unexpired risk reserve provision).

- Measurement of the liability for incurred claims (previously claims outstanding and incurred-but-not reported (IBNR) claims) is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk. The liability includes the Company's obligation to pay other incurred insurance expenses.

b. Changes in classification and measurement
- Measurement of the asset for remaining coverage (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.

- The Group expenses its insurance acquisition cash flows for its property insurance product line immediately upon payment and capitalizes insurance acquisition cash flows for all other product lines.

c. Changes in presentation and disclosures
For presentation in the statement of financial position, the Group aggregates insurance and reinsurance contracts issued and reinsurance contracts held, respectively and presents separately.

d. Transition
On transition date, 1 January 2022, the Group:

- Has identified, recognised and measured each group of insurance contracts as if IFRS 17 had always applied;

- Has identified, recognised and measured assets for insurance acquisition cash flows as if IFRS 17 has always applied. However, no recoverability assessment was performed before the transition date. At transition date, a recoverability assessment was performed and no impairment loss was identified;

- Derecognised any existing balances that would not exist had IFRS 17 always applied;

- Recognised any resulting net difference in equity; and

- The Group applied a full retrospective approach for transition to IFRS 17

The impact on adoption of this new standard on comparative financial information is disclosed in note 41.

Notes to the Consolidated Financial Statements (Continued)

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2023 (Continued)

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

The Group has adopted the amendments to IAS 1 for the first time in the current year. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The Group has adopted the amendments to IAS 12 for the first time in the current year. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 12 Income Taxes—International Tax Reform — Pillar Two Model Rules

The Group has adopted the amendments to IAS 12 for the first time in the current year. The IASB amends the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules.

The amendments introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

Following the amendments, the Group is required to disclose that it has applied the exception and to disclose separately its current tax expense (income) related to Pillar Two income taxes.

The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 8 Accounting Polices, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The Group has adopted the amendments to IAS 8 for the first time in the current year. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted

The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

(ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2023

At the date of authorization of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

Notes to the Consolidated Financial Statements (Continued)

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2023 (Continued)

IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IAS 1	Non-current Liabilities with Covenants
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Group anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transactions arise.

The amendments are not expected to have a material impact on these financial statements.

Amendments to IAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current

The amendments to IAS 1, published in January 2020, affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted. The IASB has aligned the effective date with the 2022 amendments to IAS 1. If an entity applies the 2020 amendments for an earlier period, it is also required to apply the 2022 amendments early.

The amendments are not expected to have a material impact on these financial statements.

Amendments to IAS 1 Presentation of Financial Statements— Non-current Liabilities with Covenants

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses

Notes to the Consolidated Financial Statements (Continued)

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2023 (Continued)

Amendments to IAS 1 Presentation of Financial Statements— Non-current Liabilities with Covenants (Continued)

information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The amendments are applied retrospectively for annual reporting periods beginning on or after 1 January 2024.

The amendments are not expected to have a material impact on these financial statements.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures— Supplier Finance Arrangements

The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements:

- the terms and conditions of the arrangements;
- the carrying amount, and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements;
- the carrying amount, and associated line items for which the suppliers have already received payment from the finance providers;
- ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement; and
- liquidity risk information.

The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after 1 January 2024.

The amendments are not expected to have a material impact on these financial statements.

Amendment to IFRS 16 Leases—Lease Liability in a Sale and Leaseback

The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in IFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

As part of the amendments, the IASB amended an Illustrative Example in IFRS 16 and added a new example to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability that arises from a sale and leaseback transaction that qualifies as a sale applying IFRS 15 is a lease liability.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If a seller-lessee applies the amendments for an earlier period, it is required to disclose that fact.

A seller-lessee applies the amendments retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied IFRS 16.

The amendments are not expected to have a material impact on these financial statements.

(iii) Early adoption of standards

The Group and the Bank did not early-adopt any new or amended standards in 2023.

Notes to the Consolidated Financial Statements (Continued)

3. MATERIAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations, as issued by the International Accounting Standard Board (IASB) and the requirements of the Kenyan Companies Act, 2015. The financial statements are presented in the functional currency, Kenya Shillings, rounded to the nearest thousand (Kshs. '000), except where otherwise indicated and have been prepared on a historical basis except for fair value through other comprehensive income investments, investments at fair value through profit or loss and land and buildings which have been measured at fair value. For the Kenyan Companies Act, 2015 reporting purposes, in these financial statements, the balance sheet is represented by the statement of financial position and the profit and loss account is represented by the statement of profit and loss and the statement of comprehensive income.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2023. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

(c) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9. Recognition and Measurement is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(c) Business combinations and goodwill (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(d) Fair value measurement

The Bank measures financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Fair value related disclosures for financial instruments that are measured at fair value are made in note 43.

A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purposes of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of nature, characteristics and risks of assets or liability and level of fair value hierarchy, as explained above.

External valuers are involved for valuation of significant assets, such as properties.

(e) Financial assets and liabilities

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on trade date basis. Regular was purchases or sales of financial assets that require delivery of assets within time frame established by regulation or convention in the market place.

All recognized financial assets are measured subsequently in their entirety amortized cost or fair value, depending on the classification of the assets.

(i) Classification and subsequent measurement

The Group and the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through other comprehensive income (FVTOCI)
- Fair value through profit or loss (FVPL) or
- Amortized cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

These are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds, cash and bank balances, bank deposits.

Classification and measurement of debt instruments depend on:

- The Bank's business model for managing the asset; and
- The cash flow characteristics of the asset.

Notes to the Consolidated Financial Statements (Continued)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(e) Financial assets and liabilities (Continued)

(i) Classification and subsequent measurement (Continued)

Based on these factors, The Bank classifies its debt instruments into one of the following three measurement categories:

- **Amortized cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

- **Fair value through other comprehensive income (FVTOCI):** Financial assets that are held for collection of assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method.

- **Fair value through profit or loss:** Financial assets that do not meet the criteria for amortized cost or FVTOCI are measured at fair value through profit or loss. A business model in which an entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets, would result in an FVTPL business model.

- A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the profit or loss statement within other gains/(losses) in the period in which it arises. Interest income from these financial assets is included in the finance income.

Business model: The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVPL.

Factors considered by the Group in determining the business model for assets include past experience on how the cash flows of these assets were collected, how the performance of the assets is evaluated and reported to key management personnel, the risks that affect the performance of the business model (and the financial assets within) and in particular, the way that those risks are managed; and how assets managers are compensated.

Cash flow characteristic of the asset: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Equity instruments

These are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gain/ (losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

When the Bank derecognizes investments in equity instruments measured at FVTOCI, it shall disclose:

- The reason for disposing the investments,
- The fair value of investments at the date of derecognition; and
- The cumulative gain or loss on disposal.

Notes to the Consolidated Financial Statements (Continued)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(e) Financial assets and liabilities (Continued)

(ii) Measurement methods

Amortized cost and effective interest rate

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e., its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets — assets that are credit-impaired at initial recognition — The Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows. When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- Financial assets that are not impaired at initial recognition but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e., net of the expected credit loss provision).

Initial recognition and measurement

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

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

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

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.

b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

(iii) Impairment of financial assets

The Bank assesses on a forward-looking basis the expected credit loss ('ECL') associated with its debt instrument assets carried at amortized cost and FVTOCI and with the exposure arising from project finance loan and corporate loans. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

b) The time value of money; and

c) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iv) Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors.

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

Notes to the Consolidated Financial Statements (Continued)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(e) Financial assets and liabilities (Continued)

(iv) Modification of loans (Continued)

- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

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

Financial liabilities
(i) Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortized cost, except for:

- Financial liabilities at fair value through profit or loss; this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies.
- Financial guarantee contracts and loan commitments.

(ii) Derecognition

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

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Please refer to Credit Management for a detailed credit risk management and approach within note 45.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position only when there is currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in profit or loss unless required by an accounting standard or interpretation and is specifically disclosed in the accounting policies of the Group and the Bank.

Notes to the Consolidated Financial Statements (Continued)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(f) Recognition of income and expenses

Revenue is recognized as control is passed, either over time or at a point in time. The Group recognises revenue over time after each performance obligation is fulfilled.

Interest income and expense is recognised in profit or loss on Effective Interest Rate (EIR) method.

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as at fair value through other comprehensive income financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Once the recorded value of financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fees and commission income

The Bank earns fees and commission income from a diverse range of services it provides to its customers. Fees and commission charged for services provided or received by the Group are recognised as the services are provided or received, for example completion of the underlying transaction.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Other income

Other income includes dividends received from subsidiaries and associate investments, fair value gains and losses on investment securities at fair value through profit or loss, dividends relating to those financial instruments and insurance business income from subsidiary.

The insurance revenue for the period is the amount of expected premium receipts allocated to the period. The group allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. But if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then the allocation is made on the basis of the expected timing of incurred insurance service expenses.

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

(iv) Insurance service expense

Insurance service expenses include the following:

- Incurred claims for the period.
- Other incurred directly attributable expenses.
- Changes that relate to past service – changes in the fulfilment cashflows relating to the liability for incurred claims.
- Changes that relate to future service – changes in the fulfilment cash flows that result in onerous contract losses or reversals of those losses.

(v) Insurance finance income and expense

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk

The group treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held, and excludes investment components and commissions from an allocation of reinsurance premiums presented on the face of the statement of profit or loss and other comprehensive income.

(g) Property and equipment

Property and equipment, except for land and buildings, are stated at cost less accumulated depreciation and impairment in value.

Land and buildings are measured at fair value at the dates of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses on buildings. Valuations are performed every five years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.
A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying

Notes to the Consolidated Financial Statements (Continued)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(g) Property and equipment (Continued)

amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off carrying amounts of the assets over their expected useful lives.

The annual depreciation rates in use are: -

Furniture and fittings	12.50%
Office equipment	12.50%
Motor vehicles	25.00%
Computer equipment	25% - 33.33%
Leasehold improvements	12.50%

Buildings are depreciated over their shorter of the estimated useful lives and the lease term.

Freehold land is not depreciated as it is deemed to have an indefinite life.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'other income' or 'other expenses' in profit or loss in the year the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each financial year-end.

(h) Foreign currency translation

Transactions in foreign currencies during the year are converted into Kenya shillings at rates ruling at the transaction dates. Monetary assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(i) Defined contribution plans

The Bank contributes to a statutory defined contribution provident scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Kshs. 200 per employee per month. The Bank also operates a defined contribution provident fund scheme for all its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by both the Bank and employees.

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

(i) Employee benefits
(ii) Short-term benefits

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

The liability for employees' accrued annual leave entitlement at the reporting date is recognized as an expense accrual.

(j) Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

1. Current tax
Current income tax is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

2. Deferred tax
Deferred taxation is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences except:

- Where the deferred tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- In respect of temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled, the investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences.

The carrying amount of deferred tax assets is reviewed at reporting date and reduced to the extent that it is no-longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Notes to the Consolidated Financial Statements (Continued)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(j) Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Current tax and deferred tax relating to items recognized directly in other comprehensive income or equity are also recognized in other comprehensive income or equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(k) Guarantees, acceptances and letters of credit

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

(l) Leases

The Group and the Bank as a lessee

The Group and the Bank assesses whether a contract is or contains a lease, at inception of the contract. The Group and the Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group and the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

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

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is re measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re measured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group and the Bank did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently carried at revalued amounts, based on quinquennial valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses.

Whenever the Group and the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

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

Notes to the Consolidated Financial Statements (Continued)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(l) Leases (Continued)

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

The Group and the Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Other operating expenses' in profit or loss (see Note 8b).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group and the Bank has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group and the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(m) Intangible assets

The Bank's intangible assets include the value of computer software (swift software, finacle software and other associated costs) and Visa license fees. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed to be finite. Intangible assets are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset are reviewed at least each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in an asset are accounted for by changing the amortization period and method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in profit or loss in the expense category consistent with the function of the asset.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over the estimated useful lives as follows:

• Computer software	5 years
• Visa license	5 years

(n) Dividends

Dividends are charged to equity in the year in which they are declared. Proposed dividends are appropriated from retained earnings into a separate component of equity until they are declared.

(o) Impairment of non - financial assets

The Bank assesses at each reporting date, or more frequently if events or changes in circumstances indicate that an asset may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are considered, if available. If no such transactions can be identified, an appropriate valuation model is used. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

Impairment losses are recognized in the profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation surplus taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

(p) Provisions and contingent liabilities

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Notes to the Consolidated Financial Statements (Continued)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(p) Provisions and contingent liabilities (Continued)

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the statement of financial position but are disclosed unless the outflow of economic resources is remote.

(q) Share Capital

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

(r) Assets obtained by taking possession of collateral

The Group's policy is to realise collateral on a timely basis. The Group does not use non-cash collateral for its operations.

In its normal course of business, the Bank engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors.

(s) Statutory loan loss reserve

The Central Bank of Kenya has, in its prudential guidelines, specified certain minimum loan loss provisions to be held against various categories of loans and advances. Where credit loss allowances computed in line with the Central Bank regulations exceed those computed on the same loan balances under International Financial Reporting Standards, the excess is recognized as a regulatory loss reserve and is accounted for as an appropriation of retained earnings. The statutory loan loss reserve is non-distributable.

(t) Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand and bank balances held with Central bank and other short-term highly liquid investments with original maturities of three months or less, which are subject to insignificant risk of changes in their fair value and are used by the group in management of short-term commitment.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with banks, unrestricted balances with central bank and money market placement.

(u) Earnings per share

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

(v) Insurance and reinsurance contracts classification

The Group applies the Premium Allocation Approach (PAA) to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the group's previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Group discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk.

Liability for remaining coverage

Insurance acquisition cash flows

For policies that have a coverage of one year or less, the Group is eligible and chooses to recognise insurance acquisition cash flows as an expense immediately as incurred. where groups are not eligible to recognise an expense immediately, insurance acquisition cash flows are allocated to related groups of insurance contracts recognised in the statement of financial position (including those groups that will include insurance contracts expected to arise from renewals).

An asset for insurance acquisition cash flows is recognised for acquisition cash flows incurred before the related group of insurance contracts has been recognised. The effect of electing to recognise insurance acquisition cash flows as an expense when incurred for a group of insurance contracts is to increase the liability for remaining coverage and reduce the likelihood of any subsequent onerous contract loss. There would be an increased charge to profit or loss on incurring the expense, offset by an increase in profit released over the coverage period.

Onerous groups

For groups of contracts that are onerous, the liability for remaining coverage is determined by the fulfilment cash flows. Any loss-recovery component is determined with reference to the loss component recognised on underlying contracts and the recovery expected on such claims from reinsurance contracts held.

Liability for incurred claims

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques. These methods extrapolate the development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by Underwriting year, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in

Notes to the Consolidated Financial Statements (Continued)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(v) Insurance and reinsurance contracts classification (Continued)

the historical claims' development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Discount rates

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, plus an illiquidity premium where applicable. Risk free rates are determined by reference to the yields of highly liquid AAA-rated sovereign securities in the currency of the insurance contract liabilities.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the group requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.

The group has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 75th percentile. That is, the group has assessed its indifference to uncertainty for all product lines (as an indication of the compensation that it requires for bearing non-financial risk) as being equivalent to the 75th percentile confidence level less the mean of an estimated probability distribution of the future cash flows. The group has estimated the probability distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.

(w) Comparatives

Some comparative information has been restated as a result of adoption to new standard IFRS 17 and as discussed in note 41.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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:

i) Critical accounting judgements in applying the Bank's policies

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank 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 Bank monitors financial assets measured at amortized cost that are derecognized 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 Bank'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

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 Bank considers qualitative and quantitative reasonable and supportable forward-looking information.

Establishing groups of assets with similar credit risk characteristics

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

Notes to the Consolidated Financial Statements (Continued)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

i) Critical accounting judgements in applying the Bank's policies (Continued)

Models and assumptions used
The Bank 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.

ii) Critical accounting judgement in applying the insurance and reinsurance contracts

The Group applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Group's previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Group now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk.

Liability for remaining coverage

Insurance acquisition cash flows
For policies that have a coverage of one year or less, the Group is eligible and chooses to recognise insurance acquisition cash flows as an expense immediately as incurred. where groups are not eligible to recognise an expense immediately, insurance acquisition cash flows are allocated to related groups of insurance contracts recognised in the statement of financial position (including those groups that will include insurance contracts expected to arise from renewals).
An asset for insurance acquisition cash flows is recognised for acquisition cash flows incurred before the related group of insurance contracts has been recognised. The effect of electing to recognise insurance acquisition cash flows as an expense when incurred for a group of insurance contracts is to increase the liability for remaining coverage and reduce the likelihood of any subsequent onerous contract loss. There would be an increased charge to profit or loss on incurring the expense, offset by an increase in profit released over the coverage period.

Onerous groups
For groups of contracts that are onerous, the liability for remaining coverage is determined by the fulfilment cash flows. Any loss-recovery component is determined with reference to the loss component recognised on underlying contracts and the recovery expected on such claims from reinsurance contracts held.

Liability for incurred claims
The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques. These methods extrapolate the development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by Underwriting year, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Discount rates

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk free rate, plus an illiquidity premium where applicable. Risk free rates are determined by reference to the yields of highly liquid AAA-rated sovereign securities in the currency of the insurance contract liabilities.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Group requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.
The Group has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 75th percentile. That is, the Group has assessed its indifference to uncertainty for all product lines (as an indication of the compensation that it requires for bearing non-financial risk) as being equivalent to the 75th percentile confidence level less the mean of an estimated probability distribution of the future cash flows. The Group has estimated the probability distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.

Assets for insurance acquisition cash flows

The Group applies judgement in determining the inputs used in the methodology to systematically and rationally allocate insurance acquisition cash flows to groups of insurance contracts. This includes judgements about the amounts allocated to insurance contracts expected to arise from renewals of existing insurance contracts in a group and the volume of expected renewals from new contracts issued in the period. At the end of each reporting period, the Group revisits the assumptions made to allocate insurance acquisition cash flows to groups and where necessary revises the amounts of assets for insurance acquisition cash flows accordingly.

Contract boundary

The Group includes in the measurement of a group of insurance contracts all the future cash flows within the contract boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligation that exist during the reporting period in which the Group can compel the policy holder to pay premiums, or in which the Group has substantive obligation to provide the policy holder with insurance contract services.

A liability or asset relating to expected premiums or claims outside the contract boundary of insurance contract is not recognized. Such amounts relate to future insurance contracts.

iii) 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:

Notes to the Consolidated Financial Statements (Continued)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

iii) Key sources of estimation uncertainty (Continued)

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.

Property and equipment
Critical estimates are made by the directors in determining depreciation rates for property and equipment.

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 company engages third party qualified valuers to perform the valuation.

Key sources of estimation uncertainty in the accounting for operating leases include the following:
- Determination of the appropriate rate to discount the lease payments; and
- Assessment of whether a right-of-use asset is impaired.

5. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Cash in hand	555,426	597,367	553,441	598,971
Balances with Central Bank of Kenya:				
- Restricted balances (Cash Reserve Ratio)	3,669,416	3,181,681	3,669,416	3,181,681
- Unrestricted balances	2,308,085	2,137,962	2,308,085	2,137,962
Cheques and items for clearing	532,474	645,828	532,474	645,828
	7,065,401	6,562,838	7,063,416	6,564,442

The Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the Central Bank of Kenya requirements. At 31 December 2023, the Cash Reserve Ratio requirement was 4.25% (2022 – 4.25%) of all qualifying deposits.

These funds are available for use by the Bank in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% of qualifying deposits and provided that the overall average in the month is at least 4.25%.

Cheques and items for clearing represent values of outward clearing instruments, which are awaiting clearance.

6. PLACEMENTS AND BALANCES WITH OTHER BANKS

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Lending to other banks and financial institutions	1,678,922	3,671,510	1,664,548	3,625,701
Lending and balances with banks outside Kenya	20,862,366	7,389,283	20,862,366	7,389,283
	22,541,288	11,060,793	22,526,914	11,014,984

The weighted average effective interest rate on lending to other banks was 16% (2022: 8%) and to banks outside Kenya was 4% (2022: 6%).

Notes to the Consolidated Financial Statements (Continued)

7. TREASURY BILLS AND TERM NOTES

	GROUP AND BANK	
	2023 KSHS. '000	2022 KSHS. '000
At 1 January	11,008,088	20,499,366
Purchase of investment securities maturing after 182 days	1,125,413	8,813,099
Purchase of investment after 91 days to 182 days	4,191,997	2,350,000
Purchase of investment securities maturing within 91 days	7,987,377	500,000
IFRS 9 provision	74,965	(4,377)
Retirement of investment securities	(20,200,000)	(21,150,000)
At 31 December	**4,187,840**	**11,008,088**
Treasury bills:		
Maturing within 91 days of the date of acquisition	2,430,821	493,852
Maturing after 91 days to 182 days of the date of acquisition	469,493	2,202,865
Maturing after 182 days of the date of acquisition	1,212,870	8,269,609
IFRS 9 provision	(23,598)	(59,417)
Term notes:		
Maturing within 91 days of the date of acquisition	-	20,000
Maturing after 182 days of the date of acquisition	103,312	103,312
IFRS 9 provision	(5,058)	(22,133)
	4,187,840	11,008,088

Treasury bills are debt securities issued by the Government of Kenya and are classified as amortised cost. The weighted average effective interest rate on the treasury bills as at 31 December 2023 was 13.3% (2022: 9.12%).

Term notes are debt instruments issued by private and public entities for varied terms and maturity dates.

Notes to the Consolidated Financial Statements (Continued)

8. INVESTMENT IN SECURITIES MEASURED AT AMORTISED COST

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
At 1 January	35,157,808	33,941,047	33,766,758	32,979,596
Purchase of investment securities	17,432,516	7,098,981	16,675,054	6,669,000
Retirement of investment securities	(10,917,341)	(5,867,876)	(10,538,801)	(5,867,876)
IFRS 9 provision	(99,545)	(14,344)	(96,079)	(13,962)
At 31 December	41,573,438	35,157,808	39,806,932	33,766,758
Treasury bonds maturing after 182 days of the date of acquisition	**41,573,438**	**35,157,808**	**39,806,932**	**33,766,758**

9. INVESTMENT IN SECURITIES MEASURED AT FVTOCI

The bonds are debt securities and include bonds issued by the Government of Kenya and offshore bonds. They are classified as securities measured at fair value through other comprehensive income (FVTOCI). The fair value of the bonds is determined by reference to published price quotations in an active market.

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
As at 1 January	27,250,090	12,657,390	26,519,721	11,765,593
Purchase of investment securities	8,877,642	17,057,882	8,877,642	17,007,380
Sales (maturity) of investment securities	(13,829,751)	(1,857,664)	(13,829,998)	(1,688,584)
Foreign exchange gain	109,513	(33,659)	109,513	(28,897)
IFRS 9 provision	(22,700)	(25,040)	(21,516)	(25,143)
Loss on fair valuation	(1,078,028)	(548,819)	(1,050,724)	(510,628)
As at 31 December	**21,306,766**	**27,250,090**	**20,604,638**	**26,519,721**
The maturity profile is as follows:				
Within one year	930,134	7,631,289	930,134	7,631,289
After one year but within two years	2,711,032	660,015	2,711,032	660,015
After two but within five years	9,089,060	6,366,645	9,089,060	6,366,645
After five years	8,709,969	12,671,814	8,005,970	11,940,758
IFRS 9 provision	(133,429)	(79,673)	(131,558)	(78,986)
	21,306,766	**27,250,090**	**20,604,638**	**26,519,721**

Notes to the Consolidated Financial Statements (Continued)

10. INVESTMENT IN ORDINARY SHARES

a) At fair value through other comprehensive income (FVTOCI)

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Investment in listed shares (note 10 (a)(i))	7,753,363	3,696,960	7,681,921	3,608,094
Investment in privately held shares (note 10 (a)(ii))	1,249,193	956,155	1,249,192	956,155
Total investment in ordinary	9,002,556	4,653,115	8,931,113	4,564,249
i) Investment in listed shares:				
Investment as at 1 January	3,696,960	3,095,947	3,608,094	2,991,760
Gain in fair value FMB shares	4,076,440	618,267	4,076,440	618,267
Loss on local quoted shares	(20,037)	(17,254)	(2,613)	(1,933)
As at 31 December	7,753,363	3,696,960	7,681,921	3,608,094

The fair value of the listed shares is determined by reference to published price quotations in an active market. FVTOCI investments in ordinary shares have no fixed maturity date or coupon rate. The fair value movement relating to First Merchant Bank, Malawi amounts to a profit of Kshs. 4.1 billion (2022: profit of Kshs. 618 Million). The fair value movement relating to locally held shares amounts to a loss of Kshs.2.6 million (2022: profit of Kshs. 1.69 million).

	BANK	
	2023 KSHS. '000	2022 KSHS. '000
ii) Investment in privately held shares:		
First Capital Bank Limited, Botswana	195,912	154,602
First Capital Bank Mozambique	188,552	148,793
First Merchant Bank Capital Holdings (FMBCH) preference shares	864,729	652,760
As at 31 December	1,249,193	956,155
The movement in these shares is summarised below:		
As at 1 January	956,155	877,186
Foreign exchange gain	293,038	78,969
Additions	-	-
As at 31 December	1,249,193	956,155

Investment in privately held shares comprises investments in shares of First Capital Bank Limited, Botswana and First Capital Bank Limited, Mozambique, which are unquoted companies. These shares are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. The unquoted shares are measured at FVTOCI with unrealized gains/losses recognized as other comprehensive income until the investment in derecognized or impaired.

The fair value of the shares was measured using a combination of market approach (using market multiples) and net assets value approach. There was no indication of impairment noted on the unquoted shares in the current year (2022: nil).

The valuation technique used is the discounted cash flows method.

The valuation is based on level 3. Refer to note 45 to the financial statements.

	GROUP	
	2023 KSHS. '000	2022 KSHS. '000
At start of the year	83,696	99,497
Fair value (loss)	(17,562)	(15,801)
At end of the year	66,134	83,696

Notes to the Consolidated Financial Statements (Continued)

11. LOANS AND ADVANCES

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Loans and advances to customers (gross)	58,705,578	43,375,678	58,679,148	43,345,145
Less – Allowances on impairment of loans and advances	(2,928,161)	(2,425,318)	(2,923,636)	(2,421,502)
Loans and advances to customers net of ECL allowances	55,777,417	40,950,360	55,755,512	40,923,643
Allowances on impairment of loans and advances				
Opening balance	(2,425,318)	(2,470,107)	(2,421,502)	(2,466,604)
Additional Provisions in the year	(596,518)	(470,502)	(595,809)	(470,189)
Write off of fully provisioned loans	93,675	515,291	93,675	515,291
Closing balance	(2,928,161)	(2,425,318)	(2,923,636)	(2,421,502)

a) Lending concentration

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2023 %	2022 %
Agriculture	1	1
Building & Construction	2	2
Energy &Water	1	1
Financial Services	1	-
Manufacturing	29	30
Mining & Quarrying	-	-
Personal/Household	6	7
Real Estate	11	12
Tourism, Restaurant & Hotels	2	3
Trade	43	39
Transport & Communication	4	5
Total	100	100

b) Maturity analysis

GROUP 2023	WITHIN 30 DAYS KSHS. '000	31-60 DAYS KSHS. '000	61-90 DAYS KSHS. '000	MORE THAN 90 DAYS KSHS. '000	TOTAL KSHS. '000
Agriculture	26,618	2,028	-	198,311	226,957
Building & construction	334,189	240,255	57	743,539	1,318,040
Energy &water	407,411	-	-	209,466	616,877
Financial services	33,590	26,367	123,236	422,857	606,050
Manufacturing	6,744,915	1,662,280	162,268	8,380,860	16,950,323
Mining & quarrying	174	9,964	-	41,815	51,953
Personal/household	550,382	42,542	6,910	3,012,086	3,611,920
Real estate	1,462,320	166,102	938	4,884,587	6,513,947
Tourism, Restaurant & hotels	62,874	3,137	-	1,129,388	1,195,399
Trade	3,275,371	1,951,943	19,699	20,134,472	25,381,485
Transport & Communication	618,151	431	1,636	1,612,410	2,232,628
Total	13,515,995	4,105,049	314,744	40,769,791	58,705,579

Notes to the Consolidated Financial Statements (Continued)

11. LOANS AND ADVANCES (Continued)
b) Maturity analysis (Continued)

BANK 2023	WITHIN 30 DAYS KSHS. '000	31-60 DAYS KSHS. '000	61-90 DAYS KSHS. '000	MORE THAN 90 DAYS KSHS. '000	TOTAL KSHS. '000
Agriculture	26,618	2,028	0	198,311	226,957
Building & construction	334,190	240,255	57	743,539	1,318,041
Energy &water	407,412	0	0	209,466	616,878
Financial services	33,590	26,367	123,236	422,857	606,050
Manufacturing	6,744,914	1,662,280	162,268	8,380,860	16,950,322
Mining & quarrying	174	9,964	0	41,815	51,953
Personal/household	550,382	42,542	6,910	2,985,656	3,585,490
Real estate	1,462,320	166,101	938	4,884,587	6,513,946
Tourism, Restaurant & hotels	62,874	3,137	0	1,129,387	1,195,398
Trade	3,275,371	1,951,943	19,699	20,134,472	25,381,485
Transport & Communication	618,151	431	1,636	1,612,410	2,232,628
Total	13,515,996	4,105,048	314,744	40,743,360	58,679,148

GROUP 2022	WITHIN 30 DAYS KSHS. '000	31-60 DAYS KSHS. '000	61-90 DAYS KSHS. '000	MORE THAN 90 DAYS KSHS. '000	TOTAL KSHS. '000
Agriculture	-	1,656	-	227,725	229,381
Building & construction	370,494	19,135	19,120	605,967	1,014,716
Energy &water	11,449	44,177	34,168	469,405	559,199
Financial services	-	-	93,795	9,526	103,321
Manufacturing	3,344,520	1,787,717	189,555	7,832,758	13,154,550
Mining & quarrying	-	-	-	73,295	73,295
Personal/household	425,710	6,303	7,093	2,435,660	2,874,766
Real estate	691,087	114,989	75,049	4,228,713	5,109,838
Tourism, Restaurant & hotels	82,296	-	1,445	1,094,271	1,178,012
Trade	2,678,624	703,750	111,196	13,416,667	16,910,237
Transport & Communication	726,781	-	33,112	1,408,470	2,168,363
Total	8,330,961	2,677,727	564,533	31,802,457	43,375,678

Notes to the Consolidated Financial Statements (Continued)

11. LOANS AND ADVANCES (Continued)
b) Maturity analysis (Continued)

BANK 2022	WITHIN 30 DAYS KSHS. '000	31-60 DAYS KSHS. '000	61-90 DAYS KSHS. '000	MORE THAN 90 DAYS KSHS. '000	TOTAL KSHS. '000
Agriculture	-	1,656	-	227,725	229,381
Building & construction	370,494	19,135	19,120	605,967	1,014,716
Energy &water	11,449	44,177	34,168	469,405	559,199
Financial services	-	-	93,795	9,526	103,321
Manufacturing	3,344,520	1,787,717	189,555	7,832,758	13,154,550
Mining & quarrying	-	-	-	73,295	73,295
Personal/household	425,710	6,303	7,093	2,435,660	2,874,766
Real estate	691,087	114,989	75,049	4,228,713	5,109,838
Tourism, Restaurant & hotels	82,296	-	1,445	1,094,271	1,178,012
Trade	2,678,624	703,750	111,196	13,416,667	16,910,237
Transport & Communication	726,781	-	33,112	1,377,937	2,137,830
Total	8,330,961	2,677,727	564,533	31,771,934	43,345,145

12. INSURANCE CONTRACT LIABILITIES

	2023			2022		
	REMAINING COVERAGE KSHS.000	INCURRED CLAIMS KSHS.000	TOTAL KSHS.000	REMAINING COVERAGE KSHS.000	INCURRED CLAIMS KSHS.000	TOTAL KSHS.000
Insurance Contract liabilities	297,612	862,583	1,160,196	166,171	808,906	975,077
Reinsurance Contract assets	(46,049)	(243,282)	(289,331)	(10,860)	(206,649)	(217,509)
Net Closing Insurance Contract Liabilities	251,563	619,301	870,865	155,311	602,257	757,568

Notes to the Consolidated Financial Statements (Continued)

12. INSURANCE CONTRACT LIABILITIES (Continued)
(a) Analysis by insurance remaining coverage and incurred claim

	2023			
	LIABILITY FOR REMAINING COVERAGE		LIABILITY FOR INCURRED CLAIMS	TOTAL
ENTRIES	EXCL LOSS COMPONENT KSHS.000	LOSS COMPONENT KSHS.000	INCL RISK ADJUSTMENT KSHS.000	KSHS.000
Opening insurance contact liabilities	165,938	232	808,906	975,076
Opening insurance contract assets	-	-	-	-
Net opening balance	165,938	232	808,906	975,076
Insurance revenue	2,042,049	-	-	2,042,049
Insurance Service expenses				
Incurred claims and other directly attributable expenses	-	-	1,026,523	1,026,523
Changes that relate to past service - adjustments to the LIC	-	-	14,911	14,911
Losses on onerous contracts and reversal of those losses	-	4,544	-	4,544
Insurance acquisition cash flows amortization	371,375	-	-	371,375
Insurance service expenses	371,375	4,544	1,041,434	1,417,353
Insurance service result	1,670,675	(4,544)	(1,041,434)	624,697
Finance income (expenses) from insurance contracts issued			294,501	294,501
Total amounts recognized in profit or loss	1,670,675	(4,544)	(746,933)	919,197
Investment components	-	-	333,266	333,266
Cash flows				-
Premiums received	2,178,629	-	-	2,178,629
Claims and other directly attributable expenses paid	-	-	(1,026,522)	(1,026,522)
Insurance acquisition cash flows deducted	(381,057)			(381,057)
Total cash flows	1,797,572	-	(693,256)	1,104,316
Net closing balance	292,836	4,777	862,583	1,160,196
Closing insurance contract liabilities	292,836	4,777	862,583	1,160,196
Closing insurance contract assets	-	-	-	-
Net closing balance	292,836	4,777	862,583	1,160,196

Notes to the Consolidated Financial Statements (Continued)

12. INSURANCE CONTRACT LIABILITIES (Continued)
(b) Analysis by insurance remaining coverage and incurred claim

	2022			
	LIABILITY FOR REMAINING COVERAGE		LIABILITY FOR INCURRED CLAIMS	TOTAL
ENTRIES	Excl Loss Component Kshs.000	Loss Component Kshs.000	Incl Risk Adjustment Kshs.000	Kshs.000
Opening insurance contact liabilities	158,741	2,669	718,779	880,189
Opening insurance contract assets	-	-	-	-
Net opening balance	158,741	2,669	718,779	880,189
Insurance revenue	1,593,715	-	-	1,593,715
Insurance Service expenses				
Incurred claims and other directly attributable expenses	-	-	760,409	760,409
Changes that relate to past service - adjustments to the LIC	-	-	41,994	41,994
Losses on onerous contracts and reversal of those losses	-	(2,436)	-	(2,436)
Insurance acquisition cash flows amortization	284,476	-	-	284,476
Insurance service expenses	284,476	(2,436)	802,403	1,084,443
Insurance service result	1,309,239	2,436	(802,403)	509,273
Finance income (expenses) from insurance contracts issued			219,308	219,308
Total amounts recognized in profit or loss	**1,309,239**	**2,436**	**(583,095)**	**728,581**
Investment components	-	-	267,441	267,441
Cash flows				-
Premiums received	1,610,895	-	-	1,610,895
Claims and other directly attributable expenses paid	-	-	(760,409)	(760,409)
Insurance acquisition cash flows deducted	(294,460)			(294,460)
Total cash flows	1,316,436	-	(492,968)	823,468
Net closing balance	**165,938**	**233**	**808,906**	**975,077**
Closing insurance contract liabilities	165,938	233	808,906	975,077
Closing insurance contract assets	-	-	-	-
Net closing balance	**165,938**	**233**	**808,906**	**975,077**

Notes to the Consolidated Financial Statements (Continued)

12. INSURANCE CONTRACT LIABILITIES (Continued)

(c) Analysis by reinsurance remaining coverage and incurred claim

	2023			
	ASSETS FOR REMAINING COVERAGE		ASSETS FOR INCURRED CLAIMS	TOTAL
	EXCL LOSS COMPONENT KSHS.000	LOSS COMPONENT KSHS.000	INCL RISK ADJUSTMENT KSHS.000	KSHS.000
Opening reinsurance contract assets	10,846	14	206,649	217,508
Opening reinsurance contract liabilities	-	-	-	-
Net opening balance	10,846	14	206,649	217,508
Reinsurance Service expenses	827,453	-	-	827,453
Reinsurance Service expenses				
Incurred claims and other directly attributable expenses	-	-	122,792	122,792
Changes that relate to past service - adjustments to the LIC	-	-	26,479	26,479
Losses on onerous contracts and reversal of those losses	-	3,460	-	3,460
Insurance acquisition cash flows amortization	312,421	-	-	312,421
Reinsurance service expenses	312,421	3,460	149,271	465,152
Reinsurance service result	515,032	(3,460)	(149,271)	362,301
Finance income (expenses) from insurance contracts issued			(10,154)	(10,154)
Total amounts recognized in profit or loss	515,031	(3,460)	(159,425)	352,147
Investment components	-	-	-	-
Cash flows				-
Reinsurance Premiums paid	862,765	-	-	862,765
Other charges				
Claims and other directly attributable expenses paid	-	-	(122,792)	(122,792)
Insurance acquisition cash flows deducted	(316,003)	-	-	(316,003)
Total cash flows	546,762	-	(122,792)	423,969
Net closing balance	**42,576**	**3,473**	**243,282**	**289,331**
Closing reinsurance contract liabilities	42,576	3,473	243,282	289,331
Closing reinsurance contract assets	-	-	-	-
Net closing balance	**42,576**	**3,473**	**243,282**	**289,331**

Notes to the Consolidated Financial Statements (Continued)

12. INSURANCE CONTRACT LIABILITIES (Continued)

(d) Analysis by reinsurance remaining coverage and incurred claim

	2022			
	ASSETS FOR REMAINING COVERAGE		ASSETS FOR INCURRED CLAIMS	TOTAL
	EXCL LOSS COMPONENT KSHS.000	LOSS COMPONENT KSHS.000	INCL RISK ADJUSTMENT KSHS.000	KSHS.000
Opening reinsurance contract assets	30,557	563	172,567	203,687
Opening reinsurance contract liabilities	-	-	-	-
Net opening balance	30,557	563	172,567	203,687
Reinsurance Service expenses	592,558	-	-	592,558
Reinsurance Service expenses				
Incurred claims and other directly attributable expenses	-	-	94,158	94,158
Changes that relate to past service - adjustments to the LIC	-	-	22,048	22,048
Losses on onerous contracts and reversal of those losses	-	(550)	-	(550)
Insurance acquisition cash flows amortization	200,502	-	-	200,502
Reinsurance service expenses	200,502	(550)	116,206	316,159
Reinsurance service result	392,056	550	(116,206)	276,399
Finance income (expenses) from insurance contracts issued			(12,034)	(12,034)
Total amounts recognized in profit or loss	392,056	550	(128,240)	264,365
Investment components	-	-	-	-
Cash flows				-
Reinsurance Premiums paid	580,661	-	-	580,661
Other charges				
Claims and other directly attributable expenses paid	-	-	(94,158)	(94,158)
Insurance acquisition cash flows deducted	(208,316)			(208,316)
Total cash flows	372,345	-	(94,158)	278,187
Net closing balance	**10,846**	**14**	**206,649**	**217,508**
Closing reinsurance contract liabilities	10,846	14	206,649	217,508
Closing reinsurance contract assets	-	-	-	-
Net closing balance	**10,846**	**14**	**206,649**	**217,508**

13. OTHER ASSETS

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Prepayments and deposits	441,518	269,696	441,518	269,696
Accrued income	354,645	293,417	354,645	293,417
Others*	466,510	516,570	389,225	491,271
	1,262,673	1,079,683	1,185,388	1,054,384

* Comprises amounts paid in advance for various projects being undertaken by the Bank, salary advances, deposits paid for properties to be acquired and withholding tax on interest on fixed deposits paid in advance.

Notes to the Consolidated Financial Statements (Continued)

14. INVESTMENT IN SUBSIDIARIES

Information about the composition of the Group at the end of the reporting period is as follows:

DETAILS OF INVESTMENT	COUNTRY OF INCOR-PORATION	ACTIVITY	% OF EQUITY INTEREST 2023	% OF EQUITY INTEREST 2022	2023 KSHS. '000	2022 KSHS. '000
Tausi Assurance Company Limited	Kenya	General insurance	80.72%	80.72%	1,395,692	1,395,692
Prime Bank Bancassurance Intermediary Limited (Prime Merchant Insurance Agency Limited)	Kenya	Insurance agency	100%	100%	5,000	5,000
Prime Limited	Kenya	Advisory services	100%	100%	5,000	5,000
					1,405,692	1,405,692

The Bank owns 100% (2022 -100%) of Prime Bank Bancassurance Intermediary Limited, an Insurance Agency that was incorporated and commenced trading in 2014.

The Bank also invested Kshs.5 million in Prime Limited a wholly owned subsidiary of the Bank which will be offering advisory services. The subsidiary has not commenced operations.

15. RIGHT OF USE - LEASEHOLD LAND

	GROUP 2023 KSHS. '000	GROUP 2022 KSHS. '000	BANK 2023 KSHS. '000	BANK 2022 KSHS. '000
COST				
At 1 January	657,500	705,844	565,000	613,344
Additions	155,232	-	155,232	-
Revaluation	-	44,656	-	44,656
Reversal on revaluation	-	(93,000)	-	(93,000)
At 31 December	812,732	657,500	720,232	565,000
AMORTISATION				
At 1 January	3,801	47,471	-	44,937
Charge for the year	14,459	11,977	13,192	10,710
Reversal of revaluation	(2,534)	(55,647)	-	(55,647)
At 31 December	15,726	3,801	13,192	-
NET CARRYING AMOUNT				
At 31 December	**797,006**	**653,699**	**707,040**	**565,000**

Leasehold land relates to right of use and there is no corresponding lease liability because it's fully paid.

Notes to the Consolidated Financial Statements (Continued)

16. PROPERTY AND EQUIPMENT - GROUP

COST/VALUATION	Freehold land Kshs. '000	Buildings Kshs. '000	Leasehold improvements Kshs. '000	Furniture and fittings Kshs. '000	Office equipment Kshs. '000	Motor vehicles Kshs. '000	Computer equipment Kshs. '000	Total Kshs. '000
At 1 January 2023	38,500	1,415,475	444,683	185,764	229,994	153,653	756,871	3,224,940
Additions	-	116,416	19,946	10,701	9,265	45,893	214,850	417,071
Disposals	-	-	-	-	-	(7,975)	(229,954)	(237,929)
At 31 December 2023	38,500	1,531,891	464,629	196,465	239,259	191,571	741,767	3,404,082
DEPRECIATION								
At 1 January 2023	-	16,990	357,314	152,558	163,228	130,446	698,278	1,518,814
Charge for the year	-	34,986	27,676	8,204	17,481	25,760	90,332	204,439
Prior year adjustment	-	(8,975)	-	-	-	-	-	(8,975)
Disposals	-	-	-	-	-	(7,975)	(229,877)	(237,852)
At 31 December 2023		43,001	384,990	160,762	180,709	148,231	558,733	1,476,276
NET CARRYING AMOUNT								
At 31 December 2023	**38,500**	**1,488,890**	**79,639**	**35,703**	**58,550**	**43,340**	**183,034**	**1,927,656**

The freehold land and buildings for the Bank were revalued as at 31 December 2022 by Knight Frank, registered valuers, on the open market value basis while the freehold land and buildings for the subsidiary were professionally valued by R.R. Oswald & Company Limited, registered valuers, on the basis of open market value on 28 December 2022. The carrying amount of the freehold land and buildings was adjusted to the revalued amount and the resultant surplus, net of deferred tax, was recognized in other comprehensive income and credited to the asset revaluation reserve in equity. If freehold land and buildings were measured using the cost model, their net carrying amounts as at 31 December 2023 would have been Kshs.15,645,000 and Kshs.549,206,000 respectively.

a) Year ended 31 December 2022

COST/VALUATION	FREEHOLD LAND KSHS. '000	BUILDINGS KSHS. '000	LEASEHOLD IMPROVEMENTS KSHS. '000	FURNITURE AND FITTINGS KSHS. '000	OFFICE EQUIPMENT KSHS. '000	MOTOR VEHICLES KSHS. '000	COMPUTER EQUIPMENT KSHS. '000	TOTAL KSHS. '000
At 1 January 2022	49,000	1,151,885	443,225	180,535	206,359	152,510	751,029	2,934,543
Additions	-	255,000	17,000	5,512	23,635	13,130	21,280	335,557
Revaluation	-	143,100	-	-	-	-	-	143,100
Eliminated on revaluation	(10,500)	(134,510)	-	-	-	-	-	(145,010)
Disposals	-	-	(15,542)	(283)	-	(11,987)	(15,438)	(43,250)
At 31 December 2022	38,500	1,415,475	444,683	185,764	229,994	153,653	756,871	3,224,940
DEPRECIATION								
At 1 January 2022	-	114,408	336,556	145,168	145,177	119,769	638,831	1,499,909
Charge for the year	-	30,993	28,678	7,673	18,051	20,582	74,882	180,859
Reversal on revaluation	-	(119,411)	-	-	-	-	-	(119,411)
Disposals	-	-	(7,920)	(283)	-	(9,905)	(15,435)	(33,543)
At 31 December 2022		25,990	357,314	152,558	163,228	130,446	698,278	1,527,814
NET CARRYING AMOUNT								
At 31 December 2022	**38,500**	**1,389,485**	**87,369**	**33,206**	**66,760**	**23,207**	**58,593**	**1,697,126**

Notes to the Consolidated Financial Statements (Continued)

16. PROPERTY AND EQUIPMENT -BANK (Continued)
b) Year ended 31 December 2023

COST/VALUATION	FREEHOLD LAND KSHS. '000	BUILDINGS KSHS. '000	LEASE-HOLD IMPROVE-MENTS KSHS. '000	FURNI-TURE AND FIT-TINGS KSHS. '000	OFFICE EQUIP-MENT KSHS. '000	MOTOR VEHICLES KSHS. '000	COMPUT-ER EQUIP-MENT KSHS. '000	TOTAL KSHS. '000
At 1 January 2023	38,500	1,170,634	442,228	119,563	229,994	147,682	671,762	2,820,363
Additions	-	116,416	19,946	6,219	9,265	41,593	210,756	404,195
Disposals	-	-	-	-	-	(7,975)	(229,954)	(237,929)
At 31 December 2023	38,500	1,287,050	462,174	125,782	239,259	181,300	652,564	2,986,629
DEPRECIATION								
At 1 January 2023	-	-	354,859	98,253	163,228	127,219	622,675	1,366,234
Charge for the year	-	30,336	27,676	6,222	17,481	23,998	86,128	191,841
Disposals	-	-	-	-	-	(7,975)	(229,877)	(237,852)
At 31 December 2023	-	30,336	382,535	104,475	180,709	143,242	478,926	1,320,223
NET CARRYING AMOUNT								
At 31 December 2023	**38,500**	**1,256,714**	**79,639**	**21,307**	**58,550**	**38,058**	**173,638**	**1,666,406**

The Bank's freehold land and buildings were revalued as at 31 December 2022 by Knight Frank, registered valuers, on the open market value basis. The carrying amount of the freehold land and buildings was adjusted to the revalued amount and the resultant surplus, net of deferred tax, was recognized in other comprehensive income and credited to the asset revaluation reserve in equity. If freehold land and buildings were measured using the cost model, their net carrying amounts as at 31 December 2023 would have been Kshs.15,645,000 and Kshs.524,932,000 respectively.

COST/VALUATION	FREEHOLD LAND KSHS. '000	BUILDINGS KSHS. '000	LEASE-HOLD IMPROVE-MENTS KSHS. '000	FURNI-TURE AND FIT-TINGS KSHS. '000	OFFICE EQUIP-MENT KSHS. '000	MOTOR VEHICLES KSHS. '000	COMPUT-ER EQUIP-MENT KSHS. '000	TOTAL KSHS. '000
At 1 January 2022	49,000	914,544	440,770	114,730	206,359	145,087	671,889	2,542,379
Additions	-	255,000	17,000	5,116	23,635	10,130	15,311	326,192
Revaluation	-	135,600	-	-	-	-	-	135,600
Eliminated on revaluation	(10,500)	(134,510)	-	-	-	-	-	(145,010)
Disposals	-	-	(15,542)	(283)	-	(7,535)	(15,438)	(38,798)
At 31 December 2022	38,500	1,170,634	442,228	119,563	229,994	147,682	671,762	2,820,363
DEPRECIATION								
At 1 January 2022	-	93,068	334,101	92,488	145,177	115,087	567,479	1,347,400
Charge for the year	-	26,343	28,678	6,048	18,051	19,667	70,631	169,418
Eliminated on revaluation	-	(119,411)	-	-	-	-	-	(119,411)
Disposals	-	-	(7,920)	(283)	-	(7,535)	(15,435)	(1,173)
At 31 December 2022	-	-	354,859	98,253	163,228	127,219	622,675	1,366,234
NET CARRYING AMOUNT	**38,500**	**1,170,634**	**87,369**	**21,310**	**66,766**	**20,463**	**49,087**	**1,454,129**

Notes to the Consolidated Financial Statements (Continued)

17. RIGHT OF USE ASSETS

	GROUP AND BANK	
	2023 KSHS.'000	2022 KSHS.'000
COST		
At 1 January	657,024	506,881
Additions	78,675	150,143
At 31 December	735,699	657,024
DEPRECIATION		
At 1 January	371,418	268,522
Charge for the year	103,724	102,896
At 31 December	475,142	371,418
NET BOOK VALUE		
At 31 December	260,557	285,606
Depreciation expense on right-of-use assets	103,724	102,896
Interest expense on lease liabilities (note 21)	16,834	20,308
At the end of the year	120,558	123,204

The Group was not committed to any arrangements that are short term as at year end (2022 – Kshs. nil). All the property leases in which the Group is the lessee contain only fixed payments.

The total cash outflow for the leases amounted to Kshs. 121 million (2022: Kshs. 128 million) being payment for both the principal and interest as disclosed in note 21. There are no restrictions or covenants imposed by lessors and the group did not enter into any sale and leaseback transactions during the year.

Notes to the Consolidated Financial Statements (Continued)

18. INTANGIBLE ASSETS-GROUP

	COMPUTER SOFTWARE AND VISA LICENSE FEES KSHS.'000	GOODWILL KSHS.'000	TOTAL KSHS.'000
COST			
At 1 January	824,187	642,752	1,466,939
Additions	390,286	-	390,286
At 31 December	1,214,473	642,752	1,857,225
AMORTISATION			
At 1 January	700,317	-	700,317
Charge for the year	129,956	-	129,956
At 31 December	830,273	-	830,273
NET CARRYING AMOUNT			
At 31 December	**384,200**	**642,752**	**1,026,952**
31-December- 2022			
COST			
At 1 January	795,582	642,752	1,438,334
Additions	28,605	-	28,605
At 31 December	824,187	642,752	1,466,939
AMORTISATION			
At 1 January	642,137	-	642,137
Charge for the year	58,179	-	58,179
At 31 December	700,316	-	700,316
NET CARRYING AMOUNT			
At 31 December	**123,871**	**642,752**	**766,623**

The goodwill arose from the Bank's acquisition of Tausi Assurance Company Limited. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

The goodwill was tested for impairment at 31 December 2023. The recoverable amount was determined based on value in use calculations. Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value in use. A five-year forecast was used as a basis for future cash flows, extrapolated in perpetuity to reflect the long-term plans for the entity, using a nominal growth rate of 1.0%. The after-tax discount rate used was based on an assessment of the risks applicable to Tausi Assurance Company Limited and the outlook of the Kenyan economy. The discount rate calculated for the forecast years was 11% per annum. These variables are established on the basis of management judgement and current market conditions. Management judgement is also applied in estimating the future cash flows of the cash-generating units. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to the assumptions regarding the long-term sustainability of the cash flows thereafter. Based on the testing performed, the directors believe that the goodwill is not impaired.

Notes to the Consolidated Financial Statements (Continued)

18. INTANGIBLE ASSETS-BANK (Continued)

INTANGIBLE ASSET - BANK	2023 KSHS. '000	2022 KSHS. '000
COST		
At 1 January	766,422	744,728
Additions	374,983	21,694
Disposals	(40,884)	-
At 31 December	1,100,521	766,422
AMORTISATION		
At 1 January	658,918	607,338
Charge for the year	120,296	51,580
Disposals	(40,883)	-
At 31 December	738,331	658,918
NET CARRYING AMOUNT		
At 31 December	**362,190**	**107,504**

Intangible assets comprise computer software and Visa license fees. Computer software is what the entity paid to acquire the Bank's core banking system and other peripheral systems. Visa license fees is paid for the use of the Visa payment system. Most of these assets will be amortised in the next four years. The Bank has not pledged its intangible assets as security for liabilities and therefore the Bank has no restriction over title of its assets as at 31 December 2023 and 31 December 2022.

19. DEFERRED TAX

Movement of the deferred tax liability during the year is as follows:

GROUP 2023	AT 1 JANUARY KSHS. '000	RECOGNIZED IN STATEMENT OF PROFIT OR LOSS KSHS. '000	RECOGNIZED IN OTHER COMPREHEN-SIVE INCOME KSHS. '000	AT 31 DECEMBER KSHS. '000
Arising from:				
Property and equipment	(198,315)	(82,427)	-	(280,742)
Provision for staff leave	3,096	1,718	-	4,814
Other provision	12,850	19,577	-	32,427
Provision for loans and advances	1,071,369	161,554	-	1,232,923
FVTOCI	183,701	-	327,090	510,791
Prior Year adjustment	-	32,049	-	32,049
	1,072,701	132,471	327,090	1,532,262

2022	AT 1 JANUARY KSHS. '000	RECOGNIZED IN STATEMENT OF PROFIT OR LOSS KSHS. '000	RECOGNIZED IN OTHER COMPREHEN-SIVE INCOME KSHS. '000	AT 31 DECEMBER KSHS. '000
Arising from:				
Property and equipment	(215,116)	16,801	-	(198,315)
Provision for staff leave	6,000	(2,904)	-	3,096
Other provision	26,970	(14,120)	-	12,850
Provision for loans and advances	881,101	190,268	-	1,071,369
FVTOCI	(818,666)	-	1,002,367	183,701
	(119,711)	190,045	1,002,367	1,072,701

Notes to the Consolidated Financial Statements (Continued)

19. DEFERRED TAX (Continued)

BANK 2023				
Arising from:				
Property and equipment	(127,552)	(83,908)	-	(211,460)
Provision for staff leave	3,096	1,718	-	4,814
Other provision	12,849	19,577	-	32,426
Provision for loans and advances	1,059,635	156,568	-	1,216,203
Prior Year adjustment		35,155		35,155
FVTOCI	193,440	-	330,550	523,990
	1,141,468	129,110	330,550	1,601,128

2022				
Arising from:				
Property and equipment	(144,032)	16,480	-	(127,552)
Provision for staff leave	6,000	(2,904)	-	3,096
Other provision	26,970	(14,121)	-	12,849
Provision for loans and advances	868,588	191,047	-	1,059,635
FVTOCI	(811,171)	-	1,004,611	193,440
	(53,645)	190,502	1,004,611	1,141,468

The deferred tax liability is mainly due to accelerated capital allowances and the tax effect of the revaluation surplus on leasehold land and buildings valued in the year as detailed in notes 14 and 15.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle on a tax basis. The following is the analysis of the deferred tax balances for financial reporting purposes.

	GROUP		BANK	
	2023 KSHS.'000	2022 KSHS.'000	2023 KSHS. '000	2022 KSHS.'000
Deferred tax liabilities	(69,156)	(68,767)	-	-
Deferred tax assets	1,601,418	1,141,668	1,601,418	1,141,468
Due to banks and financial institutions	1,532,262	1,072,701	1,601,418	1,141,468

20. BALANCES DUE TO BANKS AND FINANCIAL INSTITUTIONS

	GROUP		BANK	
	2023 KSHS.'000	2022 KSHS.'000	2023 KSHS. '000	2022 KSHS.'000
Due to banks and financial institutions	8,185	3,001	8,185	3,001

Notes to the Consolidated Financial Statements (Continued)

21. DEPOSITS FROM CUSTOMERS

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Current deposits	28,295,654	24,579,102	28,721,659	24,976,073
Savings deposits	878,137	862,378	878,137	862,378
Call deposits	784,486	557,282	784,486	557,282
Fixed deposits	97,171,093	81,187,951	97,171,093	81,187,951
	127,129,370	107,186,713	127,555,375	107,583,684

Included in deposits from customers, were deposits of Kshs. 1,537 million (2022: Kshs. 1,190 million) held as collateral for irrevocable commitments. The weighted average effective interest rate on interest bearing customer deposits as at 31 December 2023 was 6.9% (2022:5.9%).

22. LEASE LIABILITIES

	GROUP & BANK	
	2023 KSHS.'000	2022 KSHS.'000
Non-current	240,573	215,175
Current	46,771	99,492
	287,344	314,667

	GROUP & BANK	
	2023 KSHS.'000	2022 KSHS.'000
Maturity Analysis		
Year 1	46,771	113,355
Year 2	35,203	102,696
Year 3	109,307	64,058
Year 4	31,200	44,399
Year 5	28,137	19,325
Onwards	66,035	-
Future interest payments	(29,309)	(29,166)
	287,344	314,667

The movement in lease liability is as follows:

As at 1 January	314,667	267,549
Additions	77,088	154,842
Interest on lease liability	16,834	20,308
Lease payments – principal portion	(104,411)	(107,724)
Lease payments – interest portion	(16,834)	(20,308)
At 31 December 2023	287,344	314,667

As discussed in note 16, the Bank leases branch premises for its use.

Notes to the Consolidated Financial Statements (Continued)

23. OTHER LIABILITIES

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Pay orders issued	23,929	21,895	23,929	21,895
Bills payable	476,199	412,926	476,200	412,927
Sundry creditors and accruals	738,473	389,113	631,512	358,188
IFRS 9 provisions on financial guarantees and loan commitments	193,777	310,322	193,777	310,322
	1,432,378	1,134,256	1,325,418	1,103,332

Pay orders issued, bills payable and sundry creditors and accruals are payable on demand and are non-interest bearing.

24. INCOME TAX

(a) Corporate tax (recoverable)/payable

GROUP	2023 KSHS. '000	2022 KSHS. '000
Balance brought forward	(65,049)	(87,396)
Charge for the year	329,776	241,110
Paid during the year	(273,765)	(218,763)
Tax recoverable	(9,038)	(65,049)

BANK STATEMENT OF FINANCIAL POSITION		
Balance brought forward	(12,755)	(21,406)
Charge for the year	237,865	172,399
Paid during the year	(194,028)	(163,748)
Tax payable (recoverable)	31,082	(12,755)

(b) Income tax expense

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Current tax	327,813	241,110	237,865	172,399
Deferred tax credit (note 18)	(132,471)	(190,046)	(129,110)	(190,503)
Prior year under Provision	(2,993)	-	-	-
Tax charge/ (credit) for the year	192,349	51,064	108,755	(18,104)

Notes to the Consolidated Financial Statements (Continued)

24. INCOME TAX
(c) Reconciliation of tax expense to tax based on accounting profit:

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Accounting profit before tax	4,899,054	3,802,172	4,343,231	3,523,041
Tax at applicable rate of 30% (2022 – 30%)	1,469,716	1,140,650	1,302,969	1,056,912
Other expenses not deductible for tax purposes	901,081	621,139	898,487	612,194
Other income not subject to tax	(2,178,448)	(1,710,725)	(2,092,700)	(1,687,210)
Tax charge / (credit) for the year	192,349	51,064	108,756	(18,104)

25. SHARE CAPITAL

	GROUP AND BANK	
	2023 ORDINARY SHARES OF KSHS. 1,000 EACH	2022 ORDINARY SHARES OF KSHS. 1,000 EACH
Authorised:		
Ordinary shares of Kshs. 1,000 each	8,000,000	8,000,000
Issued and fully paid:		
At 1 January and 31 December	6,649,390	6,649,390
	6,649,390	6,649,390

26. SHARE PREMIUM

	GROUP AND BANK	
	2023 KSHS. '000	2022 KSHS. '000
Share premium: 500,000 shares of Kshs. 3,334 each	1,667,000	1,667,000
Share premium: 1,149,390 shares of Kshs. 3,100 each	3,563,109	3,563,109
	5,230,109	5,230,109

27. (a) OTHER RESERVES

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Retained earnings	16,991,761	15,541,730	15,662,012	14,388,693
FVTOCI reserve	6,315,538	2,997,990	6,394,877	3,041,224
Asset revaluation reserve	651,466	644,946	624,152	624,152
Statutory loan reserve	1,199,673	353,022	1,199,673	353,022
	25,158,438	19,537,688	23,880,714	18,407,091

The fair value through other comprehensive income reserve comprises changes in fair value of fair value through other comprehensive income investments.

The asset revaluation reserve is not distributable and is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates an increase in the fair value of the same assets previously recognized in equity.

The statutory loan reserves is the excess Central Bank of Kenya required provisions over expected credit losses on loans and advances.

Notes to the Consolidated Financial Statements (Continued)

27 (b) OTHER RESERVES (GROUP)

Included in the reserves are below items.

(i) Decrease in profit for PMIA – This is the difference in profit for Prime Bank Bancassurance Intermediary Limited consolidated in 2022 and the amount as per the audited financial statements.

28. INTEREST INCOME

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Loans and advances to customers	5,548,527	4,180,718	5,545,386	4,177,259
Placements and bank balances	1,085,799	408,526	1,054,895	376,258
Treasury bills and term notes	770,817	1,408,087	770,817	1,408,087
Government securities at amortised cost	4,561,697	4,339,000	4,267,478	4,104,546
FVTOCI investments	3,041,300	1,732,291	3,041,300	1,732,291
	15,008,140	12,068,622	14,679,876	11,798,441

Interest on bills and bonds have been recognised using effective interest rate. The interest on loans and placements are recognised using the effective interest rate method.

29. INTEREST EXPENSE (GROUP AND BANK)

	2023 KSHS. '000	2022 KSHS. '000
Due to customers	8,105,315	5,900,347
Due to banks and other financial institutions	2,023	798
Interest on lease liabilities	16,834	20,308
	8,124,172	5,921,453

30. FEES AND COMMISSION INCOME (GROUP AND BANK)

Commission income	398,305	324,148
Fees income	197,224	146,745
	595,529	470,893

Notes to the Consolidated Financial Statements (Continued)

31. INSURANCE REVENUE AND EXPENSES (GROUP)

	2023 KSHS.000	2022 KSHS.000
Insurance Contract Revenue		
Total insurance service result		
Insurance revenue from contracts measured under PAA	2,042,049	1,593,715
Total	**2,042,049**	**1,593,715**
Insurance service expenses		
Actual claims and expenses over the period	(1,026,523)	(778,757)
Expected release of incurred claims over the period	693,830	554,125
Expected release of risk adjustment for incurred claims	76,003	61,440
New Incurred Claims over the period	(402,443)	(197,603)
Increase in incurred claims liability for past periods	-	(459,956)
Increase in PV and RA of incurred claim liability	(382,302)	-
Release of deferred acquisition cost	(371,374)	(284,476)
Increase in losses on onerous contracts	(4,544)	2,436
Total	**(1,417,353)**	**(1,102,789)**
Reinsurance Expenses		
PAA premium reserve release	(827,453)	(592,558)
Total	**(827,453)**	**(592,558)**
Reinsurance Recoveries		
Actual claims recoveries	122,792	94,158
Expected release of incurred claims over the period	(174,361)	(120,770)
Expected release of risk adjustment for incurred claims	(19,092)	(13,421)
New Incurred Claims over the period	151,863	70,418
Increase in PV and RA of incurred claims liability	68,069	85,822
Release of deferred acquisition cost	312,421	200,501
Changes in loss recovery component	3,460	(550)
Total	**465,152**	**316,158**
Total insurance service result	**262,395**	**214,526**

32. OTHER INCOME

	GROUP		BANK	
	2023 KSHS.'000	2022 KSHS.'000	2023 KSHS.'000	2022 KSHS.'000
Miscellaneous income	88,847	78,461	47,334	68,649
Recoveries of loans and advances previously written off	6,506	6,518	6,506	6,518
	95,353	**84,979**	**53,840**	**75,167**

Notes to the Consolidated Financial Statements (Continued)

33. ALLOWANCES FOR IMPAIRMENT OF FINANCIAL INSTRUMENTS

	GROUP		BANK	
	2023 KSHS.'000	2022 KSHS.'000	2023 KSHS.'000	2022 KSHS.'000
Allowance on loans and advances to customers	595,809	470,189	595,809	470,189
Allowance on loan commitments	(96,248)	105,442	(96,248)	105,442
Allowance on financial guarantees	(20,298)	17,708	(20,298)	17,708
Allowance on term notes and bonds	(17,166)	4,377	(17,166)	4,377
Allowance on government securities	59,796	39,105	59,796	39,105
Write-off during the year	804	1,589	804	1,589
	522,697	638,410	522,697	638,410

34. OTHER OPERATING EXPENSES

	GROUP		BANK	
	2023 KSHS.'000	2022 KSHS.'000	2023 KSHS.000	2022 KSHS.000
Staff costs (note 35)	1,997,855	1,625,443	1,987,421	1,614,724
Depreciation on property and equipment	197,758	169,418	191,841	169,418
Depreciation on right of use asset(note 16)	103,724	102,896	103,724	102,896
Amortisation of intangible assets(note 17)	120,296	51,580	120,296	51,580
Amortisation of leasehold land(note 14)	13,192	10,710	13,192	10,710
Auditors' remuneration	18,437	14,988	18,437	14,988
Directors' emoluments	126,726	148,294	126,726	148,294
Deposit protection fund levy	162,966	147,246	162,966	147,246
Rent and rates	54,485	51,033	54,442	51,033
Other general administration expenses*	1,176,374	787,641	1,170,619	777,560
	3,971,813	3,109,249	3,949,664	3,088,449

* Other general administration expenses include repairs and maintenance (Ksh. 284 million; 2022: Ksh. 210 million), subscriptions (Ksh.113 million; 2022: Ksh. 89 million), security (Ksh. 64 million; 2022: Ksh. 63 million), Stationery (Ksh. 70 million; 2022: Ksh. 52 million), Insurance expenses (Ksh 45 million; 2022: Ksh. 41 million) among others.

Notes to the Consolidated Financial Statements (Continued)

35. PROFIT BEFORE TAX

	GROUP		BANK	
	2023 KSHS.'000	2022 KSHS.'000	2023 KSHS.000	2022 KSHS.000
Profit before tax is stated after charging/(crediting): -				
Depreciation on property and equipment (note 16)	237,852	188,726	191,841	168,418
Depreciation on right of use assets (note 17)	103,724	102,896	103,724	102,896
Amortisation of intangible assets (note 18)	120,296	58,179	120,296	51,579
Amortisation of leasehold land (note 15)	13,192	11,977	13,192	10,710
Directors' emoluments	126,726	155,530	126,726	148,294
Auditors' remuneration	18,437	18,120	18,437	14,988
And after crediting: -				
Foreign exchange gains	1,027,600	504,265	1,027,600	504,265
Dividend income	354,511	162,769	582,919	322,589
Gain/(loss) on sale of property and equipment	3,588	(4,141)	3,588	(4,141)

36. EARNINGS PER SHARE

Basic earnings per share is calculated on the profit for the year and on the weighted average number of shares outstanding during year.

Diluted earnings per share is calculated on the profit for the year and on the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares. There are no such dilutive shares.

The following reflects the profit for the year and share data used in calculating the basic and diluted earnings per share:

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Profit for the year attributable to equity holders of the parent (Kshs. '000)	4,411,190	3,680,688	4,234,476	3,541,147
Weighted average number of shares (Thousands)	6,649	6,649	6,649	6,649
Basic and diluted earnings per share (Kshs.)	663	553	637	533

37. STAFF COSTS

Salaries and wages	1,880,190	1,595,433	1,680,298	1,414,946
Contributions to pension scheme	98,743	88,355	89,294	80,002
Other staff costs	241,604	136,847	217,829	119,776
	2,220,537	1,820,635	1,987,421	1,614,724

Notes to the Consolidated Financial Statements (Continued)

38. DIVIDENDS PAID (GROUP AND BANK)

	2023 KSHS. '000	2022 KSHS. '000
Interim dividend declared and paid on ordinary shares	1,017,357	498,704
Proposed Final dividend (2022 paid)	1,097,149	1,097,149
Interim dividend per Ordinary share	153	75
Proposed Final dividend per ordinary share	**165**	**165**

Dividend per share is calculated based on the amount of the dividends and on the number of shares in issue at the reporting date.

39. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Cash in hand (note 5)	555,426	597,367	553,441	598,971
Balances with Central Bank of Kenya-unrestricted (note 5)	2,308,085	2,137,962	2,308,085	2,137,962
Cheques and items for clearing (note 5)	532,474	645,828	532,474	645,828
Placements and balances with other banks (note 6)	22,541,288	11,060,793	22,526,914	11,014,984
Government securities and term notes maturing within 91 days (note 7)	-	20,000	-	20,000
Due to banks and financial institutions (note 19)	(8,185)	(3,001)	(8,185)	(3,001)
	25,929,088	**14,458,949**	**25,912,729**	**14,414,744**

40. CONTINGENT LIABILITIES

	GROUP		BANK	
	2023 KSHS. '000	2022 KSHS. '000	2023 KSHS. '000	2022 KSHS. '000
Letters of credit	3,307,808	1,848,651	3,307,808	1,848,651
Local guarantees	5,686,618	4,843,471	5,686,618	4,843,471
Bills for collection	4,515,815	4,600,449	4,515,815	4,600,449
Foreign currency bills for collection	160,189	106,196	160,189	106,196
Custodial treasury bonds	3,992,534	3,992,534	3,992,534	3,992,534
Spot sales/purchase	208,488	395,751	208,488	395,751
Swap sales/purchases	13,198,926	4,526,609	13,198,926	4,526,609
Forward contracts	401,075	1,024,691	401,075	1,024,691
Money Mkt Borrow/lend	-	1,305,693	-	1,305,693
Non CTS cheques	253	598	253	598
Govt. securities under lien	2,976,784	442,899	2,976,784	442,899
Project Escrow	664,888	-	664,888	-
	35,113,378	**23,087,542**	**35,113,378**	**23,087,542**

Notes to the Consolidated Financial Statements (Continued)

40. CONTINGENT LIABILITIES (Continued)

The contingent liabilities represent transactions entered into in the normal course of business and are represented by counter indemnities or cash securities from customers for the same amount. Letters of credit, guarantee and acceptance commit the Bank to make payments on behalf of the customers in the event of a specific act, generally relating to the import and export of goods.

The Group is also a defendant in various legal suits. After taking appropriate legal advice, the directors concluded that the outcome of such legal suits are unlikely to result in any significant loss.

41. PRIOR YEAR ADJUSTMENT

The comparative financial statements of the group for the year ended 31 December 2021 (01 January 2022)and 31 December 2022 have been restated to reflect effect on adoption of the new standard IFRS 17 by the subsidiary company, Tausi Assurance Company Ltd. The effect of the above restatements has been disclosed as follows:

31 DECEMBER 2021 IFRS 17 ADJUSTMENTS	AS PREVIOUSLY STATED KSHS'000	ADJUSTMENT KSHS'000	AS RESTATED KSHS'000
Assets			
Other assets	1,180,690	(266,733)	913,957
	1,180,690	**(266,733)**	**913,957**
Liabilities			
Other liabilities	1,981,137	(255,620)	1,725,517
	1,981,137	**(255,620)**	**1,725,517**
Equity			
Retained earnings	29,155,654	(11,113)	29,144,541
	29,155,654	**(11,113)**	**29,144,541**

31 DECEMBER 2022 IFRS 17 ADJUSTMENTS	AS PREVIOUSLY STATED KSHS'000	ADJUSTMENT KSHS'000	AS RESTATED KSHS'000
Assets			
Other assets	1,639,164	(341,973)	1,297,191
	1,639,164	**(341,973)**	**1,297,191**
Liabilities			
Other liabilities	2,438,865	(329,532)	2,109,333
	2,438,865	**(329,532)**	**2,131,288**
Equity			
Retained earnings	32,524,379	(10,042)	32,514,337
Non-controlling interest	439,131	(2,399)	436,733
	32,963,510	**(12,441)**	**32,951,069**

42. CAPITAL COMMITMENTS

	2023 KSHS. '000	2022 KSHS. '000
Capital commitments contracted for	440,000	1,243,000

Capital commitments relate to expected capital expenditure to be incurred in leasehold improvements, furniture and fittings and other assets.

Notes to the Consolidated Financial Statements (Continued)

43. RELATED PARTY TRANSACTIONS

The Bank enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

a) DUE FROM:	2023 KSHS. '000	2022 KSHS. '000
i) Loans and advances to employees	546,342	481,905
ii) Loans and advances to directors and their associates	4,756,595	3,421,909
	5,302,937	3,903,814
Allowance during the year:		
At 1 January	142,678	189,519
Allowance during the year	(100,152)	(46,841)
At 31 December	**42,526**	**142,678**

The loans to related parties are given in the ordinary course of business. The average term of the loans to related parties is 3 years. The loans are secured by titles to property and directors' guarantees.

b) DUE TO:	2023 KSHS. '000	2022 KSHS. '000
i) Deposits from employees	1,185,745	1,136,045
ii) Deposits from directors and their associates	1,969,984	1,743,973
	3,155,729	2,880,018

c) KEY MANAGEMENT PERSONNEL COMPENSATION		
Salaries	848,570	657,730
Post-employment benefits	25,262	23,433
	873,832	681,163

d) DIRECTORS' EMOLUMENTS	GROUP		BANK	
	2022 KSHS. '000	2021 KSHS. '000	2022 KSHS. '000	2021 KSHS. '000
As management	89,056	110,490	85,096	107,874
As executives	45,410	45,040	41,629	40,420
	134,466	155,530	126,725	148,294

e) TRANSACTIONS WITH RELATED PARTIES

Included in interest income is Kshs. 598,361,928 (2022: Kshs. 364,954,223) being interest on loans and advances to related parties.

Included in interest expense is Kshs.42,224,495 (2022: Kshs. 39,543,329) being interest on deposits from related parties

Notes to the Consolidated Financial Statements (Continued)

44. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows the assets and liabilities analyzed according to when they are expected to be recovered or settled.

As at 31 December 2023

GROUP	WITHIN 12 MONTHS KSHS. '000	AFTER 12 MONTHS KSHS. '000	TOTAL KSHS. '000
ASSETS			
Cash and balances with the Central Bank of Kenya	7,065,401	-	7,065,401
Placements and balances with other banks	22,489,058	52,230	22,541,288
Treasury bills and term notes	4,086,700	101,140	4,187,840
Investment securities measured at amortised cost	7,227,558	34,345,880	41,573,438
Investment in bonds-fair value through other comprehensive income	1,906,750	19,400,016	21,306,766
Investment in ordinary shares fair value through other comprehensive income	-	9,002,556	9,002,556
Investment in ordinary shares fair value through profit and loss	-	66,133	66,133
Loans and advances to customers	27,244,399	28,533,018	55,777,417
Reinsurance contract assets	289,331		289,331
Other assets	354,645	908,028	1,262,673
Intangible assets	-	1,026,952	1,026,952
Tax recoverable	-	9,058	9,058
Leasehold land	-	797,006	797,006
Property and equipment	-	1,927,656	1,927,656
Right of Use	-	260,557	260,557
Deferred Tax		1,601,418	1,601,418
TOTAL ASSETS	70,663,842	98,031,648	168,695,490

	WITHIN 12 MONTHS KSHS. '000	AFTER 12 MONTHS KSHS. '000	TOTAL KSHS. '000
LIABILITIES			
Balances due to banks and financial institutions	8,185	-	8,185
Deposits from customers	126,662,019	467,351	127,129,370
Insurance contract liabilities	1,160,196	-	1,160,196
Other liabilities	1,432,378	-	1,432,378
Lease liability	45,848	241,496	287,344
Deferred tax liability	-	69,156	69,156
TOTAL LIABILITIES	129,308,626	778,003	130,086,629
NET ASSETS	(58,644,784)	97,253,645	38,608,861

Notes to the Consolidated Financial Statements (Continued)

44. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Continued)

AS AT 31 DECEMBER 2022 GROUP			
ASSETS			
Cash and balances with the Central Bank of Kenya	6,562,838	-	6,562,838
Placements and balances with other banks	11,060,793	-	11,060,793
Treasury bills and term notes	10,906,948	101,140	11,008,088
Investment securities measured at amortized cost	9,677,415	25,480,393	35,157,808
Investment in bonds-fair value through other comprehensive income	7,631,289	19,618,801	27,250,090
Investment in ordinary shares fair value through other comprehensive income	-	4,653,115	4,653,115
Investment in ordinary shares fair value through profit and loss	-	83,696	83,696
Loans and advances to customers	19,737,576	21,212,784	40,950,360
Reinsurance contract assets	217,508	-	217,508
Other assets	563,113	516,570	1,079,683
Intangible assets	-	766,623	766,623
Right of use - leasehold land	-	653,699	653,699
Property and equipment	-	1,697,126	1,697,126
Right of use	-	285,606	285,606
Tax recoverable	-	65,049	65,049
Deferred Tax	-	1,141,468	1,141,468
TOTAL ASSETS	66,357,480	76,276,070	142,633,550
LIABILITIES			
Balances due to banks and financial institutions	3,001	-	3,001
Deposits from customers	105,984,638	1,202,075	107,186,713
Insurance Contract liabilities	975,077	-	975,077
Other liabilities	1,134,256	-	1,134,256
Lease liability	99,492	215,175	314,667
Deferred tax liability	-	68,767	68,767
TOTAL LIABILITIES	108,196,464	1,486,017	109,682,481
NET ASSETS	(41,838,984)	74,790,053	32,951,069

Notes to the Consolidated Financial Statements (Continued)

44. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Continued)

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

AS AT 31 DECEMBER 2023 BANK	WITHIN 12 MONTHS KSHS. '000	AFTER 12 MONTHS KSHS. '000	TOTAL KSHS. '000
ASSETS			
Cash and balances with the Central Bank of Kenya	7,063,416	-	7,063,416
Placements and balances with other banks	22,474,684	52,230	22,526,914
Treasury bills and term notes	4,086,700	101,140	4,187,840
Investment securities measured at amortised cost	7,207,850	32,599,082	39,806,932
Investment in bonds-fair value through other comprehensive income	1,906,750	18,697,888	20,604,638
Investment in ordinary shares fair value through other comprehensive income	-	8,931,113	8,931,113
Loans and advances to customers	27,222,494	28,533,018	55,755,512
Other assets	354,645	830,743	1,185,388
Investment in subsidiary		1,405,692	1,405,692
Intangible assets	-	362,190	362,190
Leasehold land	-	707,040	707,040
Property and equipment	-	1,666,406	1,666,406
Right of Use	-	260,557	260,557
Deferred Tax	-	1,601,128	1,601,128
TOTAL ASSETS	70,316,539	95,748,227	166,064,766
LIABILITIES			
Balances due to banks and financial institutions	8,185	-	8,185
Deposits from customers	127,088,024	467,351	127,555,375
Other liabilities	1,325,418	-	1,325,418
Lease liabilities	45,848	241,496	287,344
Tax Payable	31,082	-	31,082
TOTAL LIABILITIES	128,498,557	708,847	129,207,404
NET ASSETS	(58,182,018)	95,039,380	36,857,362

Notes to the Consolidated Financial Statements (Continued)

44. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Continued)

AS AT 31 DECEMBER 2022 BANK	WITHIN 12 MONTHS KSHS. '000	AFTER 12 MONTHS KSHS. '000	TOTAL KSHS. '000
ASSETS			
Cash and balances with the Central Bank of Kenya	6,564,442	-	6,564,442
Placements and balances with other banks	11,014,984	-	11,014,984
Treasury bills and term notes	10,906,948	101,140	11,008,088
Investment in securities measured at amortized cost	9,657,707	24,109,051	33,766,758
Investment in bonds- measured at FVTOCI	7,631,289	18,888,432	26,519,721
Investment in ordinary shares measured at FVTOCI	-	4,564,249	4,564,249
Loans and advances to customers	19,737,576	21,186,067	40,923,643
Other assets	563,113	491,271	1,054,384
Investment in Subsidiary	-	1,405,692	1,405,692
Intangible assets	-	107,504	107,504
Right of use - leasehold land	-	565,000	565,000
Property and equipment	-	1,454,129	1,454,129
Right of use assets	-	285,606	285,606
Tax Receivable	-	12,755	12,755
Deferred Tax	-	1,141,468	1,141,468
TOTAL ASSETS	66,076,059	74,312,364	140,388,423
LIABILITIES			
Balances due to banks and financial institutions	3,001	-	3,001
Deposits from customers	106,381,609	1,202,075	107,583,684
Other liabilities	1,103,332	-	1,103,332
Lease liabilities	99,492	215,175	314,667
TOTAL LIABILITIES	107,587,434	1,417,250	109,004,684
NET ASSETS	**(41,511,375)**	**72,895,114**	**31,383,739**

45. FAIR VALUE MEASUREMENT

a) Comparison of the carrying amounts and fair values of the financial instruments

	GROUP				BANK			
	2023		2022		2023		2022	
	CARRYING AMOUNT KSHS. '000	FAIR VALUE KSHS. '000	CARRYING AMOUNT KSHS. '000	FAIR VALUE KSHS. '000	CARRYING AMOUNT KSHS. '000	FAIR VALUE KSHS. '000	CARRYING AMOUNT KSHS. '000	FAIR VALUE KSHS. '000
Investment in security measured at amortised cost	41,573,438	39,502,324	33,832,259	35,157,808	39,806,932	37,733,777	32,660,784	33,766,758
Treasury bills	4,089,586	4,120,606	11,300,000	10,886,948	4,089,586	4,120,606	11,300,000	10,886,948
Term notes	98,273	101,140	101,140	121,140	98,273	101,140	121,140	99,920
Bonds-at FVTOCI	21,306,766	21,306,766	27,250,090	27,250,090	20,604,638	20,604,638	26,519,721	26,519,721
Ordinary shares- at FVTOCI	9,002,556	9,002,556	4,653,115	4,653,115	8,931,113	8,931,113	4,564,249	4,564,249
Investment in ordinary shares- at fair value through profit or loss	**66,133**	**66,133**	**83,696**	**83,696**	-	-	-	-

Notes to the Consolidated Financial Statements (Continued)

45. FAIR VALUE MEASUREMENT (Continued)

b) Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1:

Included in level 1 category are financial assets that are measured in whole or in part by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The assets are traded in an active market and quoted prices are available

Level 2:

Included in level 2 category are financial assets measured using inputs other than quoted prices included within level 1 that are observable for the asset, either directly (i.e., as prices) or indirectly (i.e., derived from prices). For example, instruments measured using a valuation technique such as discounted cash flows, based on assumptions that are supported by prices from observable current market transactions are categorized as level 2.

Level 3:

Financial assets measured using inputs that are not based on observable market data are categorised as level 3. Nonmarket observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations for which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Bank. Therefore, unobservable inputs reflect the Bank's own assumptions about the assumptions that market participants would use in pricing the asset (including assumptions about risk). These inputs are developed based on the best information available, which might include the Bank's own data. However, significant portion of the unquoted shares have been valued at cost and variation in inputs would not have significant fair value change.

GROUP 2023	NOTE	LEVEL 1 KSHS. '000	LEVEL 2 KSHS. '000	LEVEL 3 KSHS. '000	TOTAL KSHS. '000
Financial investments at FVTOCI:					
Investment in bonds at FVTOCI	9	21,306,766	-	-	21,306,766
Investments in ordinary shares at FVTOCI	10(b)	7,753,365	-	1,249,191	9,002,556
Investments in ordinary shares at fair value through profit or loss	10(a)	66,133	-	-	66,133
Property and equipment					
(Freehold land and buildings)	15	-	-	1,518,415	1,518,415
Right of use - leasehold land	14	-	-	797,006	797,006
		29,126,264	-	3,564,612	32,690,876

Notes to the Consolidated Financial Statements (Continued)

45. FAIR VALUE MEASUREMENT (Continued)

b) Determination of fair value and fair value hierarchy (Continued)

GROUP 2022	NOTE	LEVEL 1 KSHS. '000	LEVEL 2 KSHS. '000	LEVEL 3 KSHS. '000	TOTAL KSHS. '000
Financial investments at FVTOCI:					
Investment in bonds at FVTOCI	9	27,250,090	-	-	27,250,090
Investments in ordinary shares at FVTOCI	10(a)	3,696,960	-	956,155	4,653,115
Investments in ordinary shares at fair value through profit or loss	10(b)	83,696	-	-	83,696
Property and equipment(Freehold land and buildings)	15	-	-	1,427,985	1,427,985
Right of use - leasehold land	14	-	-	653,699	653,699
		31,030,746	-	3,037,839	34,068,585
BANK 2023					
Financial investments at FVTOCI:					
Investment in bonds at FVTOCI	9	20,604,638	-	-	20,604,638
Investments in ordinary shares at FVTOCI	10(a)	7,681,922	-	1,249,191	8,931,113
Property and equipment (Freehold land and buildings)	15	-	1,295,214	-	1,295,214
Right of use - leasehold land	14	-	-	707,040	707,040
		28,286,560	1,295,214	1,956,231	31,538,005
2022					
Financial investments at FVTOCI:					
Investment in bonds at FVTOCI	9	26,519,721	-	-	26,519,721
Investments in ordinary shares at FVTOCI	10(a)	3,608,094	-	956,155	4,564,249
Property and equipment (Freehold land and buildings)	15	-	1,209,134	-	1,209,134
Right of use - leasehold land	14	-	-	565,000	565,000
		30,127,815	1,209,134	1,521,155	32,858,104

Description of valuation techniques used and key inputs to valuation on land and buildings:

	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RANGE (WEIGHTED AVERAGE)
Free hold land, leasehold land,and buildings	Open market valuation	Estimated rental value per s.q.m. per month	Kshs. 180 –ground floor space
			Kshs. 120 –upper floor space
		Rent growth p.a.	8%
		Discount rate	8%

There were no transfers between levels 1, 2 and 3 in the year.
Reconciliation of fair value measurement of the land and buildings

Notes to the Consolidated Financial Statements (Continued)

45. FAIR VALUE MEASUREMENT (Continued)
b) Determination of fair value and fair value hierarchy (Continued)

	2023 KSHS.'000	2022 KSHS.'000
Leasehold land		
As at 1 January	657,500	705,844
Additions	155,232	-
Total gains and losses recognised in other comprehensive income		48,344
Accumulated depreciation	(3,801)	(47,471)
Charge for the year	(11,925)	(11,977)
Total gains and losses recognised in other comprehensive income	-	55,647
As at 31 December	**797,006**	**653,699**
Freehold land		
As at 1 January	38,500	49,000
Total gains and losses recognised in other comprehensive income	-	(10,500)
As at 31 December	**38,500**	**38,500**
Buildings		
As at 1 January	1,415,475	1,151,885
Additions	116,416	255,000
Total gains and losses recognised in other comprehensive income		8,590
	1,531,891	1,415,475
Accumulated depreciation	(16,990)	(114,408)
Charge for the year	(34,986)	(30,993)
Total gains and losses recognised in other comprehensive income	8,975	119,411
As at 31 December	**1,488,890**	**1,389,485**

Significant increases/ (decreases) in estimated rental value per square metre in isolation would result in a significantly higher/ (lower) fair value on a linear basis.

Notes to the Consolidated Financial Statements (Continued)

46. CAPITAL MANAGEMENT

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Banking industry as a whole. It has set among other measures, the rules and ratios to monitor adequacy of a bank's capital.

In implementing current capital requirements, the Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed in two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealised gains on equity instruments classified as fair value through other comprehensive income.

Various limits are applied to elements of the capital base; 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 are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital.

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 recognized in addition to recognising the need to maintain a balance between the higher returns and that may be possible with greater gearing and the advantages and security afforded by sound capital position.

The Bank has complied with capital requirements.

The Bank's regulatory capital position at 31 December was as follows:-

	2023		2022	
	ACTUAL KSHS. '000	REQUIRED KSHS. '000	ACTUAL KSHS. '000	REQUIRED KSHS. '000
Tier 1 Capital	27,441,367	1,000,000	26,316,762	1,000,000
Tier 2 Capital	-	-	-	
Term subordinated debt	-	-	-	-
Statutory Loan Loss Reserve	1,069,380	-	353,022	-
Total regulatory capital	28,510,747	1,000,000	26,669,784	1,000,000
Risk weighted assets	90,243,326	-	71,925,229	-
Capital Ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	30%	14.50%	37%	14.50%
Total tier 1 capital expressed as a percentage of risk weighted assets	32%	10.50%	37%	10.50%

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT

Risk management framework

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

The Board of Directors (the Board) has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established various committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All committees report regularly to the Board on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

a) Credit risk

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

The Bank considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Management of credit risk

The Board has delegated the responsibility for the management of credit risk to the Credit Committee chaired by a Non-Executive Director. The Credit Department, headed by the Assistant General Manager, oversees the operation under the guidance of top management responsible for overseeing of the Bank's credit risk including:

1. Formulating credit policies, covering collateral requirements, credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements.

2.Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to various officers at different levels. Larger facilities require approval by Credit Committee or the Board as appropriate.

3.Reviewing and assessing credit risk. Credit Department assesses all credit exposures prior to facilities being committed to customers concerned. Renewals and reviews of facilities are subject to the same review process.

4.Limiting concentrations of exposure. The Board approved delegated authority restricts exposure for any sector.

5.Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Credit Committee/Board in respect of large borrowers.

6.Providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.

7.Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.

8.Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL.

9.Ensuring that the Bank has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

Regular audits of Credit Department processes are undertaken by Internal Audit Department.

Impairment

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

Loans and advances to customers.

Debt investment securities.

Loan commitments issued; and

Financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of Purchased or Originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

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

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition.

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)

Impairment (Continued)
For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided below.

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 Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank 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 Bank expects to receive from the holder, the debtor, or any other party. The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

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

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

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or Fair Value through Other Comprehensive Income are credit-impaired at each reporting date. A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a back- stop if amounts are overdue for 90 days or more.

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

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

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

i.The borrower is past due more than 90 days on any material credit obligation to the Bank: or
ii.The borrower is unlikely to pay its credit obligations to the Bank in full.

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

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. 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.

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

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)

Significant increase in credit risk (Continued)

risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. The Bank'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 Bank 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 Bank 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 Bank 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.

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.

Forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. Also, 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 Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime

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

The PDs used are forward-looking and the Bank 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 Bank 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, credit scores and events such as unemployment, bankruptcy, divorce or death.

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

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

Modification and derecognition of financial assets and financial liabilities

Modification of financial assets
With the implementation of IFRS 9 there are new disclosure requirements for modifications. The assessment of whether a modification to a financial asset results in derecognition or not, is relevant as it impacts the assessment of the initial credit risk of a financial asset against which any subsequent significant deterioration in credit risk would be assessed. The Group assesses modifications to financial assets in the following manner:

A loan modification is a permanent change to one or more of the terms of the loan. Enforcing or adopting terms that were present in the original terms of the facility is not a modification. The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depend on whether the modification is done for commercial reasons or because of financial difficulty of the borrower.

Contractual modifications on commercial terms are treated as a new transaction resulting in derecognition of the original financial asset and the recognition of a 'new' financial asset. Any difference between the carrying amount of the derecognised asset and the fair value of the new asset is recognised in profit or loss.

When the Group modifies the contractual conditions due to financial difficulties of the borrower, the asset is not derecognised unless the terms of the contract are

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)
Modification and derecognition of financial assets and financial liabilities (Continued)

Modification of financial assets (Continued)

substantively changed (such as the inclusion of an equity participation or a substantial change in counterparty). If the asset is not substantially modified, then the gross carrying amount of the financial asset is recalculated to be the present value of the modified cash flows discounted at the original EIR and any gain or loss is recognised in profit or loss as part of the total impairment loss.

Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;

A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit.

Modification of financial liabilities
Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Derecognition of a financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Impaired financial asset that was subject to a write-off, the group considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

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

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

a The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with

b.The remaining lifetime PD at the reporting date based on the modified terms.

Financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Group performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer credit-impaired. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)

Derecognition of a financial liabilities (Continued)

Bank calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account in 'Losses on modification of financial assets'. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.
The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the Financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety (e.g., when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write – off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank'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 loan commitments and financial guarantee contracts: as a provision; and
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Critical judgements and key sources of estimation uncertainty

In the application of the Bank's policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of loans and Advances that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Bank's Lending policies

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

Significant increase of credit risk: ECL are measured as an allowance equal to 12-month ECL for stage 1 assets,

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)

Critical judgements in applying the Bank's Lending policies (Continued)

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

Establishing groups of assets with similar credit risk characteristics: 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 appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar.

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

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

Determination of life of revolving credit facilities: The Bank measures ECL considering the risk of default over the maximum contractual period. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

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

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

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

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

Payment record, including payment ratios and ageing analysis;

- Extent of utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies.
- or retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, changes in the financial sector the customer operates etc.

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

Group Rating Description
1. Low to fair risk
2. Watch list
3. Substandard
4. Doubtful
5. Impaired

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)

Group Rating Description (Continued)

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

The Bank uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative. Loan commitments are assessed along with the category of loan the Bank is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.
Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Bank has reasonable and supportable information that demonstrates otherwise.

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

The Bank has controls and procedures in place to identify when the credit risk of an asset improves and the definition of significant increase in credit risk is no longer met. When this is the case the asset may move back to stage 1 from stage 2, subject to payments being up to date and the ability of the borrower to make future payments on time.

Incorporation of forward-looking information
The Bank uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Bank employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities. The Bank uses multiple scenarios to model the non-linear impact of assumptions about macroeconomic factors on ECL. The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely.

Key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Bank has not made changes in the estimation techniques or significant assumptions made during the reporting period. In addition to the base case scenario the Bank uses Upside and Adverse scenarios, with associated probability weightings. The probability weighting is such that the base scenario has the highest weighting, since it is the most likely outcome and the weighting of the Upside and adverse scenarios depend on the probability of the scenario.

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used at 31 December 2023 that has a material impact in ECLs.

MACRO-ECONOMIC VARIABLE	2023		
	BASE	UPSIDE	ADVERSE
		WEIGHTING	
	40%	20%	40%
Nominal GDP per capita, USD	5.93%	5.84%	6.01%
Exports of goods and services, % of GDP	10.14%	10.41%	9.87%
Long-term external debt stock, % of exports of G&S	5.88%	5.79%	5.96%
Consumer price index inflation, 2010=100 ave (as at 2023)	6.26%	6.16%	6.37%
Lending rate, %, ave	11.10%	10.80%	11.41%

Measurement of ECL
The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD)

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)

Incorporation of forward-looking information (Continued)

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data, as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

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 any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross- collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios.

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

The ECL calculation for accounting purposes is different to the ECL calculation for regulatory purposes, although many inputs used are similar. The Bank has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis.

	31-DEC-23 KSHS '000	31-DEC-22 KSHS '000
Loans and advances to customers at amortized cost		
Concentration by sector		
Agriculture	226,957	229,381
Building & Construction	1,318,041	1,014,716
Energy &Water	616,878	559,199
Financial Services	606,050	103,321
Manufacturing	16,950,322	13,154,550
Mining & Quarrying	51,953	73,294
Personal/Household	3,585,490	2,874,767
Real Estate	6,513,946	5,109,838
Tourism, Restaurant & Hotels	1,195,398	1,178,012
Trade	25,381,485	16,910,237
Transport & Communication	2,232,628	2,137,830
TOTAL	58,679,148	43,345,145

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)

Incorporation of forward-looking information (Continued)

	31-DEC-23 KSHS '000	31-DEC-22 KSHS '000
Loan commitments		
Concentration by sector		
Agriculture	42,917	30,935
Building & Construction	197,744	66,355
Energy &Water	66,012	54,793
Financial Services	68,372	8,420
Manufacturing	3,014,870	2,718,015
Mining & Quarrying	5,036	4,787
Personal/Household	960,209	692,010
Real Estate	1,594,286	1,355,368
Tourism, Restaurant & Hotels	161,888	63,896
Trade	5,996,190	3,641,659
Transport & Communication	92,534	239,375
TOTAL	12,200,058	8,875,613
Financial guarantee contracts		
Concentration by sector		
Agriculture	7,137	8,734
Building & Construction	894,465	1,245,564
Energy &Water	822,556	60,400
Financial Services	99,758	31,705
Manufacturing	4,237,717	5,087,452
Mining & Quarrying	2,378	12,860
Personal/Household	15,121	24,135
Real Estate	170,611	83,446
Tourism, Restaurant & Hotels	14,626	11,579
Trade	5,924,812	3,888,678
Transport & Communication	323,733	325,796
TOTAL	12,512,914	10,780,349

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

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)

Incorporation of forward-looking information (Continued)
An Analysis of risk concentration in gross carrying amounts and corresponding ECL in the loans portfolio by type of lending, industry.

	31-DEC-23 GROSS CARRYING AMOUNT KSHS '000	31-DEC-23 LOSS ALLOWANCE KSHS '000	31-DEC-22 GROSS CARRYING AMOUNT KSHS '000	31-DEC-22 LOSS ALLOWANCE KSHS '000
Loans and advances to customers at amortized cost				
Concentration by sector				
Agriculture	226,957	21	229,381	21
Building & Construction	1,318,041	315,368	1,014,716	271,756
Energy &Water	616,878	105	559,198	193
Financial Services	606,050	10,039	103,321	724
Manufacturing	16,950,322	515,411	13,154,550	221,765
Mining & Quarrying	51,953	11	73,295	18
Personal/Household	3,585,490	245,733	2,874,767	201,756
Real Estate	6,513,946	58,308	5,109,838	153,075
Tourism, Restaurant & Hotels	1,195,398	141,375	1,178,012	257,895
Trade	25,381,485	1,074,706	16,910,237	827,276
Transport & Communication	2,232,628	562,559	2,137,830	487,023
TOTAL	58,679,148	2,923,636	43,345,145	2,421,502
Loan commitments				
Concentration by sector				
Agriculture	42,917	3	30,935	2
Building & Construction	197,744	2,743	66,355	723
Energy &Water	66,012	10	54,793	7
Financial Services	68,372	936	8,420	145
Manufacturing	3,014,870	6,033	2,718,015	65,823
Mining & Quarrying	5,036	0	4,787	-
Personal/Household	960,208	13,213	692,010	12,162
Real Estate	1,594,286	4,026	1,355,368	37,091
Tourism, Restaurant & Hotels	161,888	3,472	63,896	10,786
Trade	5,996,190	40,973	3,641,659	31,143
Transport & Communication	92,533	1,812	239,375	11,587
TOTAL	12,200,056	73,221	8,875,613	169,469

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)

Incorporation of forward-looking information (Continued)
An Analysis of risk concentration in gross carrying amounts and corresponding ECL in the loans portfolio by type of lending, industry. (continued)

	31-DEC-23 GROSS CARRYING AMOUNT KSHS '000	31-DEC-23 LOSS ALLOWANCE KSHS '000	31-DEC-22 GROSS CARRYING AMOUNT KSHS '000	31-DEC-22 LOSS ALLOWANCE KSHS '000
Financial guarantee contracts				
Concentration by sector				
Agriculture	7,137	5	8,734	5
Building & Construction	894,465	26,011	1,245,564	42,779
Energy &Water	822,556	788	60,400	56
Financial Services	99,758	1,985	31,705	1,879
Manufacturing	4,237,717	11,037	5,087,452	30,235
Mining & Quarrying	2,378	2	12,860	12
Personal/Household	15,121	333	24,135	433
Real Estate	170,611	460	83,446	2,280
Tourism, Restaurant & Hotels	14,626	299	11,579	1,904
Trade	5,924,812	73,890	3,888,678	41,588
Transport & Communication	323,733	5,746	325,796	19,683
TOTAL	12,512,914	120,556	10,780,349	140,854

Impairment allowance reconciliations

	31-DEC-23			31-DEC-22		
	STAGE 1 12-MONTH ECL KSHS '000	STAGE 2 LIFETIME ECL KSHS '000	STAGE 3 LIFETIME ECL KSHS '000	POCI KSHS '000	TOTAL KSHS '000	TOTAL KSHS '000
Loans and advances to customers at amortized cost						
Grades 1: Low to fair risk	49,785,660	-	-	-	49,785,660	36,320,852
Grades 2: Watch	-	3,729,635	-	-	3,729,635	2,039,203
Grades 3: Substandard	-	-	682,807	-	682,807	1,229,692
Grade 4: Doubtful	-	-	3,334,264	-	3,334,264	2,911,587
Grade 5: Impaired	-	-	1,146,782	-	1,146,782	843,811
Total gross carrying amount	49,785,660	3,729,635	5,163,853	-	58,679,148	43,345,145
Loss allowance	274,397	171,950	2,477,290	-	2,923,636	2,421,502
Carrying amount	49,511,264	3,557,685	2,686,563	-	55,755,512	40,923,643

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)

Impairment allowance reconciliations (Continued)

LOAN COMMITMENTS	31-DEC-23					31-DEC-22
	STAGE 1 12-MONTH ECL KSHS '000	STAGE 2 LIFETIME ECL KSHS '000	STAGE 3 LIFETIME ECL KSHS '000	POCI KSHS '000	TOTAL KSHS '000	TOTAL KSHS '000
Grades 1: Low to fair risk	12,200,056	-	-	-	12,200,056	8,729,211
Grades 2: Watch	-	-	-	-	-	878
Grades 3: Substandard	-	-	-	-	-	145,524
Grade 4: Doubtful	-	-	-	-	-	-
Grade 5: Impaired	-	-	-	-	-	-
Total gross carrying amount	12,200,056	-	-	-	12,200,056	8,875,613
Loss allowance	73,221	-	-	-	73,221	169,468
Carrying amount	12,126,835	-	-	-	12,126,835	8,706,145

FINANCIAL GUARANTEE CONTRACTS	31-DEC-23					31-DEC-22
	STAGE 1 12-MONTH ECL KSHS '000	STAGE 2 LIFETIME ECL KSHS '000	STAGE 3 LIFETIME ECL KSHS '000	POCI KSHS '000	TOTAL KSHS '000	TOTAL KSHS '000
Grades 1: Low to fair risk	12,512,914	-	-	-	12,512,914	10,767,026
Grades 2: Watch	-	-	-	-	-	13,323
Grades 3: Substandard	-	-	-	-	-	-
Grade 4: Doubtful	-	-	-	-	-	-
Grade 5: Impaired	-	-	-	-	-	-
Total gross carrying amount	12,512,914	-	-	-	12,512,914	10,780,349
Loss allowance	120,556	-	-	-	120,556	140,854
Carrying amount	12,292,358	-	-	-	12,392,358	10,639,495

This table summarizes the loss allowance as of the year-end by class of exposure/asset.

LOSS ALLOWANCE BY CLASSES	31-DEC-23	31-DEC-22
Loans and advances to customers at amortized cost	2,923,636	2,421,502
Loan commitments	73,221	169,469
Financial guarantee contracts	120,556	140,854
Total	3,117,413	2,731,825

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)

Impairment allowance reconciliations (Continued)
The tables below analyses the movement of the loss allowance during the year per class of assets.

LOSS ALLOWANCE – LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	STAGE 1 12-MONTH ECL KSHS '000	STAGE 2 LIFETIME ECL KSHS '000	STAGE 3 LIFETIME ECL KSHS '000	TOTAL KSHS '000
Loss allowance as at 1 January 2023	525,231	198,483	1,697,788	2,421,502
Changes in the loss allowance				
– Transfer to stage 1	185,650	(119,188)	(66,462)	-
– Transfer to stage 2	(32,838)	32,838	-	-
– Transfer to stage 3	(2,346)	(51,295)	53,641	-
– Increases due to change in credit risk	31,085	103,544	1,090,466	1,225,095
– Decreases due to change in credit risk	(477,114)	(25,281)	(85,522)	(587,917)
– Write-offs		(26)	(81,369)	(81,395)
– Changes due to modifications that did not result derecognition	-	-	-	-
New financial assets originated or purchased	112,905	46,563	2,812	162,280
Financial assets that have been Settled	(68,176)	(13,688)	(134,065)	(215,929)
Loss allowance as at 31 December 2023	274,397	171,950	2,477,289	2,923,636

LOSS ALLOWANCE – LOAN COMMITMENTS	STAGE 1 12-MONTH ECL KSHS '000	STAGE 2 LIFETIME ECL KSHS '000	STAGE 3 LIFETIME ECL KSHS '000	TOTAL KSHS '000
Loss allowance as at 1 January 2023	114,200	83	55,186	169,469
Changes in the loss allowance				
– Transfer to stage 1	55,080	-	-	55,080
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	(55,080)	-	-	(55,080)
– Increases due to change in credit risk	6,201	-	-	6,201
– Decreases due to change in credit risk	(102,348)	-	-	(102,348)
– Write-offs	-	-	-	-
New financial assets originated or purchased	38,430	-	-	38,430
Financial assets that have been Settled derecognized	(38,313)	(104)	(114)	(38,531)
Loss allowance as at 31 December 2023	18,170	(21)	55,072	73,221

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)

Impairment allowance reconciliations (Continued)

LOSS ALLOWANCE – FINANCIAL GUARANTEE CONTRACTS	STAGE 1 12-MONTH ECL KSHS '000	STAGE 2 LIFETIME ECL KSHS '000	STAGE 3 LIFETIME ECL KSHS '000	TOTAL KSHS '000
Loss allowance as at 1 January 2023	138,864	1,990	-	140,854
Changes in the loss allowance				
– Transfer to stage 1	1,990	(1,990)	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	10,107	-	-	10,107
– Decreases due to change in credit risk	(18,112)	-	-	(18,112)
– Write-offs	-	-	-	-
New financial assets originated or purchased	78,295	-	-	78,295
Financial assets that have been settled derecognised	(90,588)	-	-	(90,588)
Loss allowance as at 31 December 2023	**120,556**	**-**	**-**	**120,556**

As discussed above in the significant increase in credit risk section, under the Bank's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

LOANS AND ADVANCES TO CUSTOMERS	31-DEC-23 GROSS CARRYING AMOUNT KSHS '000	LOSS ALLOWANCE KSHS '000	31-DEC-22 GROSS CARRYING AMOUNT KSHS '000	LOSS ALLOWANCE KSHS '000
0-29 days	49,785,660	274,397	36,320,852	525,232
30-59 days	3,729,635	171,950	2,039,203	198,483
60-89 days	682,807	128,232	1,229,692	271,522
90-180 days	3,334,264	1,201,107	2,911,588	918,357
More than 181 days	1,146,782	1,147,950	843,810	507,908
	58,679,148	**2,923,636**	**43,345,145**	**2,421,502**
Loan Commitments				
0-29 days	12,200,056	73,221	8,729,211	114,170
30-59 days	-	-	878	105
60-89 days	-	-	145,524	55,194
90-180days	-	-	-	-
More than 181 days	-	-	-	-
	12,200,056	**73,221**	**8,875,613**	**169,469**
Financial guarantee contracts				
0-29 days	12,512,914	120,556	10,767,026	138,864
30-59 days	-	-	13,323	1,990
60-89 days	-	-	-	-
90-180 days	-	-	-	-
More than 181 days	-	-	-	-
	12,512,914	**120,556**	**10,780,349**	**140,854**

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)

Impairment allowance reconciliations (Continued)
This table summarizes the Collateral held by each staging Loan.

	31-DEC-23 GROSS CARRYING AMOUNT KSHS '000	31-DEC-23 COLLATERAL HELD KSHS '000
Loans and advances to customers	Kshs '000	Kshs '000
Stage 1	49,785,660	56,413,163
Stage 2	3,729,635	4,137,010
Stage 3	5,163,853	4,590,615
	58,679,148	**65,140,788**
Loan Commitments	Kshs '000	Kshs '000
Stage 1	12,200,056	10,333,992
Stage 2	-	-
Stage 3	-	-
	12,200,056	**10,333,992**
Financial guarantee contracts	Kshs '000	Kshs '000
Stage 1	12,512,914	12,216,646
Stage 2	-	-
Stage 3	-	-
	12,512,914	**12,216,646**

b) Liquidity risk
Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Exposure to liquidity risk

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

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

	2023	2022
At 31 December	69.30%	80.30%
Average for the year	73.40%	80.20%
Maximum for the year	78.10%	81.80%
Minimum for the year	69.30%	78.90%
Central Bank of Kenya required minimum	**20%**	**20%**

Management of liquidity risk
The Bank'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 Institution's reputation.

Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to financial institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the institution as a whole. All liquidity policies and procedures are subject to review and approval by an Assets and Liabilities Committee.

The Bank manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. Banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, management ensures that the mismatch is controlled in line with allowable risk levels. The table below analyses maturity profiles of the undiscounted cash flows of the financial assets and liabilities

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
b) Liquidity risk (Continued)

Management of liquidity risk (Continued)

of the Bank based on the remaining period using 31 December 2022 as a base period to the contractual maturity date. Deposits from customers shown as maturing within 90 days relate to current, savings, call and fixed account balances. Although classified in this band, previous experience has shown these to be stable and of a long term nature.

AS AT 31 DECEMBER 2023	UP TO 1 MONTH KSHS. '000	1 TO 3 MONTHS KSHS. '000	3 MONTHS – 1 YEAR KSHS. '000	1 TO 5 YEARS KSHS. '000	OVER 5 YEARS KSHS. '000	TOTAL KSHS. '000
GROUP						
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	7,065,401	-	-	-	-	7,065,401
Placements and balances with other banks	13,341,059	8,639,374	508,625	-	52,230	22,541,288
Treasury bills and term notes	-	3,000,000	1,091,739	96,101	-	4,187,840
Investment securities measured at amortised cost	-	4,461,900	2,718,742	11,865,127	22,527,669	41,573,438
Bonds- at fair value through other comprehensive income	-	1,000,000	885,266	12,589,466	6,832,034	21,306,766
Loans and advances to customers	12,162,700	4,400,974	10,658,820	13,856,511	14,698,412	55,777,417
Total assets	32,569,160	21,502,248	15,863,192	38,407,205	44,110,345	152,452,150
FINANCIAL LIABILITIES						
Due to banks and financial institutions	8,185	-	-	-	-	8,185
Deposits from customers	50,156,372	21,817,595	54,688,052	467,351	-	127,129,370
Other liabilities	-	-	1,432,378	-	-	1,432,378
Total liabilities	50,164,557	21,817,595	56,120,430	467,351	-	128,569,933
Net liquidity gap	**(17,595,397)**	**(315,347)**	**(40,212,363)**	**37,894,979**	**44,110,345**	**23,882,217**

AS AT 31 DECEMBER 2022	UP TO 1 MONTH KSHS. '000	1 TO 3 MONTHS KSHS. '000	3 MONTHS – 1 YEAR KSHS. '000	1 TO 5 YEARS KSHS. '000	OVER 5 YEARS KSHS. '000	TOTAL KSHS. '000
GROUP						
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	6,562,838	-	-	-	-	6,562,838
Placements and balances with other banks	9,755,358	845,809	407,396	-	52,230	11,060,793
Treasury bills and term notes	-	493,852	10,413,096	101,140	-	11,008,088
Investment securities measured at amortised cost	-	3,665,000	1,950,838	13,091,269	16,450,701	35,157,808
Bonds- at fair value through other comprehensive income	-	1,251,830	6,379,459	7,757,029	11,861,772	27,250,090
Loans and advances to customers	6,061,938	3,189,235	9,048,833	12,074,598	10,575,756	40,950,360
Total assets	22,380,134	9,445,726	28,199,622	33,024,036	38,940,459	131,989,977
FINANCIAL LIABILITIES						
Due to banks and financial institutions	-	-	3,001	-	-	3,001
Deposits from customers	-	-	-	-	-	-
Other liabilities	38,307,429	17,352,308	50,324,901	1,202,075	-	107,186,713
	-	-	1,134,256	-	-	1,134,256
Total liabilities	38,307,429	17,352,308	51,462,158	1,202,075	-	108,323,970
Net liquidity gap	**(15,927,295)**	**(7,906,582)**	**(23,262,536)**	**31,821,961**	**38,940,459**	**23,666,007**

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
b) Liquidity risk (Continued)

Management of liquidity risk (Continued)

AS AT 31 DECEMBER 2023	UP TO 1 MONTH KSHS. '000	1 TO 3 MONTHS KSHS. '000	3 MONTHS – 1 YEAR KSHS. '000	1 TO 5 YEARS KSHS. '000	OVER 5 YEARS KSHS. '000	TOTAL KSHS. '000
BANK						
Cash and balances with Central Bank of Kenya	7,063,416	-	-	-	-	7,063,416
Placements and balances with other banks	13,341,059	8,625,000	508,625	-	52,230	22,526,914
Treasury bills and term notes	-	3,000,000	1,091,739	96,101	-	4,187,840
Investment securities measured at amortised cost		4,461,900	2,701,075	10,493,785	22,150,172	39,806,932
Bill & Bonds- at fair value through other comprehensive income	-	1,000,000	885,266	11,859,097	6,860,275	20,604,638
Loans and advances to customers	12,162,700	4,400,974	10,658,820	13,834,606	14,698,412	55,755,512
Total assets	32,567,175	21,487,874	15,845,525	36,283,589	43,761,089	149,945,252
FINANCIAL LIABILITIES						
Due to banks and financial institutions	8,185	-	-	-	-	8,185
Deposits from customers	50,185,406	22,214,566	54,688,052	467,351	-	127,555,375
Other liabilities	-	-	1,325,418	-	-	1,325,418
Total liabilities	50,193,591	22,214,566	56,013,470	467,351	-	128,888,978
Net liquidity gap	(17,626,416)	(726,692)	(40,167,945)	35,816,238	43,761,089	21,056,274

AS AT 31 DECEMBER 2022	UP TO 1 MONTH KSHS. '000	1 TO 3 MONTHS KSHS. '000	3 MONTHS – 1 YEAR KSHS. '000	1 TO 5 YEARS KSHS. '000	OVER 5 YEARS KSHS. '000	TOTAL KSHS. '000
BANK						
Cash and balances with Central Bank of Kenya	6,564,442	-	-	-	-	6,564,442
Placements and balances with other banks	9,755,358	800,000	407,396	-	52,230	11,014,984
Treasury bills and term notes	-	493,852	10,413,096	101,140	-	11,008,088
Investment securities measured at amortised cost	-	3,665,000	1,931,130	11,719,927	16,450,701	33,766,758
Bill & Bonds- at fair value through other comprehensive income	-	1,251,830	6,379,459	7,026,660	11,861,772	26,519,721
Loans and advances to customers	7,389,716	3,204,073	9,143,787	10,734,196	10,451,871	40,923,643
Total assets	23,709,516	9,414,755	28,274,868	29,581,923	38,816,574	129,797,636
FINANCIAL LIABILITIES	-	-	3,001	-	-	3001
Due to banks and financial institutions	-	-	-	-	-	-
Deposits from customers	38,307,429	17,749,279	50,324,901	1,202,075	-	107,583,684
Other liabilities	-	-	1,103,332	-	-	1,103,332
Total liabilities	38,307,429	17,749,279	51,431,234	1,202,075	-	108,690,017
Net liquidity gap	(14,597,913)	(8,334,524)	(23,156,366)	28,379,848	38,816,574	21,107,619

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)

c) Classification of financial instruments

The table below sets out the Bank's classification of each class of financial assets and liabilities. The amounts in the table are the carrying amounts of the financial instruments at the reporting date:

AT 31 DECEMBER 2023	AMORTIZED COST KSHS.'000	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FINANCIAL ASSETS KSHS.'000	AT FAIR VALUE THROUGH PROFIT OR LOSS KSHS.'000	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST KSHS.'000	CARRYING AMOUNT KSHS.'000
GROUP					
Assets					
Cash and balances with Central Bank of Kenya	7,065,401	-	-	-	7,065,401
Placements and balances with other banks	22,541,288	-	-	-	22,541,288
Treasury bills and term notes	4,187,840	-	-	-	4,187,840
Investment securities measured at amortised cost	41,573,438	-	-	-	41,573,438
Investment in bonds-fair value through other comprehensive income	-	21,306,766	-	-	21,306,766
Investment in ordinary shares- fair value through other comprehensive income	-	9,002,556	-	-	9,002,556
Investment in ordinary shares- at fair value through profit or loss			66,133		66,133
Loans and advances to customers	55,777,417	-		-	55,768,813
Total assets	**131,145,384**	**30,309,322**	**66,133**	**-**	**161,520,839**
Liabilities					
Balances due to banks and financial institutions	-	-	-	8,185	8,185
Deposits from customers	-	-	-	127,129,370	127,129,370
Other liabilities	-	-	-	1,432,378	1,432,378
Total liabilities	**-**	**-**	**-**	**128,569,933**	**128,569,933**

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
c) Classification of financial instruments (Continued)

AT 31 DECEMBER 2022	AMORTIZED COST KSHS.'000	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FINANCIAL ASSETS KSHS.'000	AT FAIR VALUE THROUGH PROFIT OR LOSS KSHS.'000	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST KSHS.'000	CARRYING AMOUNT KSHS.'000
GROUP					
Assets					
Cash and balances with Central Bank of Kenya	6,562,838	-	-	-	6,562,838
Placements and balances with other banks	11,060,793	-	-	-	11,060,793
Treasury bills and term notes	11,008,088	-	-	-	11,008,088
Investment securities measured at amortised cost	35,157,808	-	-	-	35,157,808
Investment in bonds-fair value through other comprehensive income	-	27,250,090	-	-	27,250,090
Investment in ordinary shares- fair value through other comprehensive income	-	4,653,115	-	-	4,653,115
Investment in ordinary shares- at fair value through profit or loss		-	83,696	-	83,696
Loans and advances to customers	40,950,360	-	-	-	40,950,360
Total assets	104,739,887	31,903,205	83,696	-	136,726,788
Liabilities					
Balances due to banks and financial institutions	-	-	-	3,001	3,001
Deposits from customers	-	-	-	107,186,713	107,186,713
Other liabilities	-	-	-	1,134,256	1,134,256
Total liabilities	-	-	-	108,323,970	108,323,970

AT 31 DECEMBER 2023	AMORTIZED COST KSHS.'000	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FINANCIAL ASSETS KSHS.'000	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST KSHS.'000	CARRYING AMOUNT KSHS.'000
BANK				
Assets				
Cash and balances with Central Bank of Kenya	7,063,416	-	-	7,063,416
Placements and balances with other banks	22,526,914	-	-	22,526,914
Treasury bills and term notes	4,187,840	-	-	4,187,840
Investment securities measured at amortised cost	39,806,932	-	-	39,806,932
Investment in bonds-fair value through other comprehensive income	-	20,604,638	-	20,604,638
Investment in ordinary shares fair value through other comprehensive income	-	8,931,113	-	8,931,113
Loans and advances to customers	55,755,512	-	-	55,755,512
Total assets	129,340,614	29,535,751	-	158,876,365
Liabilities				
Balances due to banks and financial institutions	-	-	8,185	8,185
Deposits from customers	-	-	127,555,375	127,555,375
Other liabilities	-	-	1,325,418	1,325,418
Total liabilities	-	-	128,888,978	128,888,978

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
c) Classification of financial instruments (Continued)

AT 31 DECEMBER 2022	AMORTIZED COST KSHS.'000	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FINANCIAL ASSETS KSHS.'000	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST KSHS.'000	CARRYING AMOUNT KSHS.'000
BANK				
Assets				
Cash and balances with Central Bank of Kenya	6,564,442	-	-	6,564,442
Placements and balances with other banks	11,014,984	-	-	11,014,984
Treasury bills and term notes	11,008,088	-	-	11,008,088
Investment securities measured at amortised cost	33,766,758	-	-	33,766,758
Investment in bonds-fair value through other comprehensive income	-	26,519,721	-	26,519,721
Investment in ordinary shares fair value through other comprehensive income	-	4,564,249	-	4,564,249
Loans and advances to customers	40,923,643	-	-	40,923,643
Total assets	**103,277,915**	**31,083,970**	**-**	**134,361,885**
Liabilities				
Balances due to banks and financial institutions	-	-	3,001	3,001
Deposits from customers	-	-	107,583,684	107,583,684
Other liabilities	-	-	1,103,332	1,103,332
Total liabilities	**-**	**-**	**108,690,017**	**108,690,017**

d) Market risk
Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The objective of market risk management is to manage and control market risk exposure within acceptable levels, while optimising on return on the risk.

Equity price risk
Equity price risk is the risk that the fair value of equities fluctuates as a result of changes in the value of equity indices and individual stocks. A 10% increase in the value of the Bank's at fair value through other comprehensive income equities as at 31 December 2023 would have increased equity by Kshs.893 million (2022: Kshs. 456 million). An equivalent decrease would have resulted in an equivalent but opposite impact and would cause a potential impairment which would reduce profit before tax.

Interest risk exposure
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of changes in the prevailing levels of market rates but may also decrease or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest repricing that may be undertaken. Consequently, the interest sensitivity effect on profit or loss would not be significant given the repricing frequency.

The table below summarises the exposure to interest rates risks. Included in the table are the Bank's assets and liabilities at carrying amounts categorised by the earlier of contractual repricing or maturity dates:

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)

d) Market risk (Continued)

Interest risk exposure (Continued)

AS AT 31 DECEMBER 2023	UP TO 1 MONTH KSHS. '000	1 TO 3 MONTHS KSHS. '000	3 MONTHS TO 1 YEAR KSHS. '000	1 TO 5 YEARS KSHS. '000	OVER 5 YEARS KSHS. '000	TOTAL KSHS. '000
GROUP						
ASSETS						
Placements and balances with other banks	13,341,059	8,639,374	508,625	-	52,230	22,541,288
Treasury bills and term notes	-	3,000,000	1,091,739	96,101	-	4,187,840
Investment securities measured at amortised cost	-	4,461,900	2,718,742	11,865,127	22,527,669	41,573,438
Bonds- fair value through other comprehensive income	-	1,000,000	884,387	12,589,466	6,832,913	21,306,766
Loans and advances to customers	12,162,700	4,400,974	10,658,820	13,856,511	14,698,412	55,777,417
Total assets	25,503,759	21,502,248	15,862,313	38,407,205	44,111,224	145,386,749
LIABILITIES						
Due to banks & financial institutions	8,185		-			8,185
Deposits from customers	50,156,372	21,817,595	54,688,052	467,351	-	127,129,370
Total liabilities	50,164,557	21,817,595	54,688,052	467,351	-	127,137,555
Total interest sensitivity gap	(24,660,798)	(315,347)	(38,825,739)	37,939,854	-	18,249,194
As at 31 December 2022						
Total assets	15,817,296	9,445,726	28,199,622	33,024,036	38,940,459	125,427,139
Total liabilities	38,307,429	17,352,308	50,327,902	1,202,075	-	107,189,714
Total interest sensitivity gap	(22,490,133)	(7,906,582)	(22,128,280)	31,821,961	38,940,459	18,218,425

BANK AS AT 31 DECEMBER 2023	UP TO 1 MONTH KSHS. '000	1 TO 3 MONTHS KSHS. '000	3 MONTHS TO 1 YEAR KSHS. '000	1 TO 5 YEARS KSHS. '000	OVER 5 YEARS KSHS. '000	TOTAL KSHS. '000
ASSETS						
Placements and balances with other banks	13,341,059	8,625,000	508,625	-	52,230	22,526,914
Treasury bills and term notes	-	3,000,000	1,091,739	96,101	-	4,187,840
Investment securities measured at amortised cost	-	4,461,900	2,701,075	10,493,785	22,150,172	39,806,932
Bills & Bonds- fair value through other comprehensive income	-	1,000,000	885,266	11,859,097	6,860,275	20,604,638
Loans and advances to customers	12,162,700	4,400,974	10,658,820	13,834,606	14,698,412	55,755,512
Total assets	25,503,759	21,487,874	15,845,525	36,283,589	43,761,089	142,881,836
LIABILITIES						
Due to banks & financial institutions	8,185	-	-	-	-	8,185
Deposits from customers	50,185,406	22,214,566	54,688,052	467,351	-	127,555,375
Total liabilities	50,193,591	22,214,566	54,688,052	467,351	-	127,563,560
Total interest sensitivity gap	(24,689,832)	(726,692)	(38,842,527)	35,816,238	-	15,318,276
As at 31 December 2022						
	15,817,296	9,399,917	28,153,197	30,922,325	38,940,459	123,233,194
Total liabilities	38,307,429	17,749,279	50,327,902	1,202,075	-	107,586,685
Total interest sensitivity gap	(22,490,133)	(8,349,362)	(22,174,705)	29,720,250	38,940,459	15,646,509

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
d) Market risk (Continued)
Interest risk exposure (Continued)

The sensitivity computations assume that loan and advances and deposits maintain a constant rate of return from one year to the next. The effect on other comprehensive income due to reasonable possible changes in interest rates, with all other variables held constant, is as follows:

	2023 KSHS. '000	2022 KSHS. '000
Effect on profit before tax of a +1% change in interest rates	(194,535)	(82,231)
Effect on profit before tax of a -1% change in interest rates	194,535	82,231

Foreign currency exchange risk
The Bank records transactions in foreign currencies at the rates in effect at the date of the transaction. The Bank retranslates monetary assets and liabilities denominated in foreign currencies at the rates of exchange in effect at the reporting date. The Bank holds foreign currency denominated balances for cash and bank balances and placements, loans and advances and customer deposits. All the gains or losses arising from the changes in the currency exchange rates are accounted for in profit or loss.

The Bank's functional currency, the Shilling, has generally, over the recent past shown a weakening tendency against the US dollar and strengthening against the Euro, the two major currencies in which the Bank has significant foreign transactions.

The US dollar
At 31 December 2023, if the US dollar had strengthened by 1% against the Shilling, with all other variables held constant, the sensitised effect on profit or loss would have been a increase in profit before tax of Kshs. 5,194 (2022: Kshs.6,482) mainly as a result of the Dollar denominated net monetary liabilities. The reverse would also occur if the Kenya Shilling weakened with all other variables held constant.

The Euro
At 31 December 2023, if the Euro had strengthened against the Shilling by 1%, with all other variables held constant, the sensitised effect on profit or loss would have been an increase in profit before tax of Kshs.116,080 (2022: Kshs. 2,481) mainly as a result of the Euro denominated net monetary assets. The reverse would also occur if the Kenya Shilling weakened with all other variables held constant.

In computing the percentage change in exchange rates, management has taken into consideration the direction of the published rates movement in the functional currency against the major foreign transactional currencies over the last two years.

The table below summarises foreign currency exposure to the group and bank:

AS AT 31 DECEMBER 2023 IN KSHS'000	USD	GBP	EURO	ZAR	JPY	OTHERS	TOTAL
Assets							
Cash and cash equivalents (Group and Bank)	19,549,100	410,301	1,014,770	4,257	8,175	26,886	21,013,469
Investment in ordinary shares fair value through other comprehensive income	1,211,646	-	-	-	-	-	1,211,646
Offshore bonds	424,005	100,889	-	-	-	-	524,894
Loans and advances	14,259,879	23,662	2,763,971	-	-	-	17,047,512
Others	1,723,438	3,128,941	221,105	2,123	-	15,055	5,090,662
Total assets	37,168,068	3,663,793	3,999,846	6,380	8,175	41,941	44,888,203
Liabilities							
Balances due to banks and financial institutions							
Deposits	30,834,728	3,639,016	1,637,163	1,532	112	15,292	36,127,843
Others	5,813,902	23,432	2,351,007	4,590	7,823	9,995	8,210,749
Total liabilities	36,648,630	3,662,448	3,988,170	6,122	7,935	25,287	44,338,592
Net exposure as at 31 December 2023	519,438	1,345	11,676	258	240	16,654	549,611

Notes to the Consolidated Financial Statements (Continued)

47. FINANCIAL RISK MANAGEMENT (Continued)
d) Market risk (Continued)

Foreign currency exchange risk (Continued)

The table below summarises foreign currency exposure to the group and bank:

AS AT 31 DECEMBER 2022 IN KSHS'000	USD	GBP	EURO	ZAR	JPY	OTHERS	TOTAL
Assets							
Cash and cash equivalents (Group and Bank)	8,233,661	1,458,083	442,971	5,063	3,916	34,505	10,178,199
Investment in ordinary shares fair value through other comprehensive income	956,156	-	-	-	-	-	956,156
Offshore bonds	654,070	74,393	-	-	-	-	728,463
Loans and advances	8,511,584	29,330	2,671,797	-	-	-	11,212,711
Others	2,393,171	1,635,291	253,754	-	2,814	7,878	4,292,908
Total assets	20,748,642	3,197,097	3,368,522	5,063	6,730	42,383	27,368,437
Liabilities							
Balances due to banks and financial institutions	-	-	-	-	-	3,001	3,001
Deposits							
Others	19,731,918	3,195,286	1,366,254	422	94	20,608	24,314,582
	384,708	8,905	2,311,181	3,779	6,438	1,253	2,716,263
Total liabilities	20,116,626	3,204,191	3,677,435	4,201	6,532	24,861	27,033,846
Net exposure as at 31 December2022	**632,016**	**(7,094)**	**(308,913)**	**862**	**198**	**17,522**	**334,591**

48. OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions
- Requirement for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the yearly assessment of operational risk faced, and the requirements of controls and procedures to address the risk identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

49. CLIMATE RELATED RISK

Climate-related risks' are potential negative impacts on the bank arising from climate change. Climate-related risks have an impact on the principal risk categories discussed above (i.e. credit. liquidity, market and operational risks), but due to their pervasive nature have been identified and managed by the Group on an overall basis. The bank distinguishes between physical risks and transition risks.

Physical risks arise as the result of acute weather events such as hurricanes, floods and wildfires, and longer-term shifts in climate patterns such as sustained higher temperatures, heat waves, droughts and rising sea levels.

Transition risks arise as a result of measures taken to mitigate the effects of climate change and transition to a low-carbon economy such as changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand.

The Group is in the process of developing group-wide policies, processes and controls to incorporate climate risks in the management of principal risk categories, developing models that aim to assess how borrowers' performance is linked to climate change. The Group plans to use these models in pricing credit risk and in calculating ECLs and incorporate climate-related risk into stress test scenarios.

50. EVENTS AFTER THE REPORTING PERIOD

There were no significant adjusting events subsequent to the period end that required adjustment or disclosure in these financial statements.

CORPORATE SOCIAL RESPONSIBILITY

FEEDING PROGRAM AND WOMEN EMPOWERMENT INITIATIVES IN KOROGOCHO

In remaining true to its corporate value of caring for the societies and communities it operates in, Prime Bank partnered with Provide International Organization, a community based Non-Governmental Organization (NGO) to launch a feeding program in Korogocho. The program, which will run for three years, serves as an intervention to curb chances of many children turning to street life in search of food.

The Bank provides nutritious lunch to 500 children of single mothers aged 10 years and below at Provide International in Korogocho every day.

For sustainability of the program, the Bank procures foodstuffs while Provide International cook; feed the children as well as monitoring the nutrition status of the children on the program. The Bank has also set up energy-saving jikos at Provide International Centre. To encourage inclusivity, Prime Bank staff on weekly basis, visit the centre to serve food and spend time with the children.

In partnership with the Office of the First Lady, Mama Doing Good and Provide International, Prime Bank has also launched the women economic empowerment program targeting 1,610 single mothers of the children on the feeding program with the aim of helping them attain self-sustainability.

Through this program, women are trained on table banking best practices, debt management and how well to manage finances within their respective groups. They are also trained on simple bookkeeping including cash in and cash out management for their hawking and kiosk ventures.

Prime Bank provides the financial support to the program while the Office of the First Lady through Mama Doing Good provides the training while Provide International monitors and evaluates the program.

NYUMBANI 30TH ANNIVERSARY

Through our long-founded relationship and shared heritage, we were elated to have been invited to the 30th Anniversary celebrations of Cogri Nyumbani Home. The vision and mission of its Founding Director Fr. Angelo D'Agostino has been made a reality by the hard work of the team at the Home. We at Prime Bank are proud to have witnessed and been part of the Home's growth over the years.

PRIME BANK IN RELIEF DRIVE TO AID FAMILIES IN SEMI-ARID AREAS

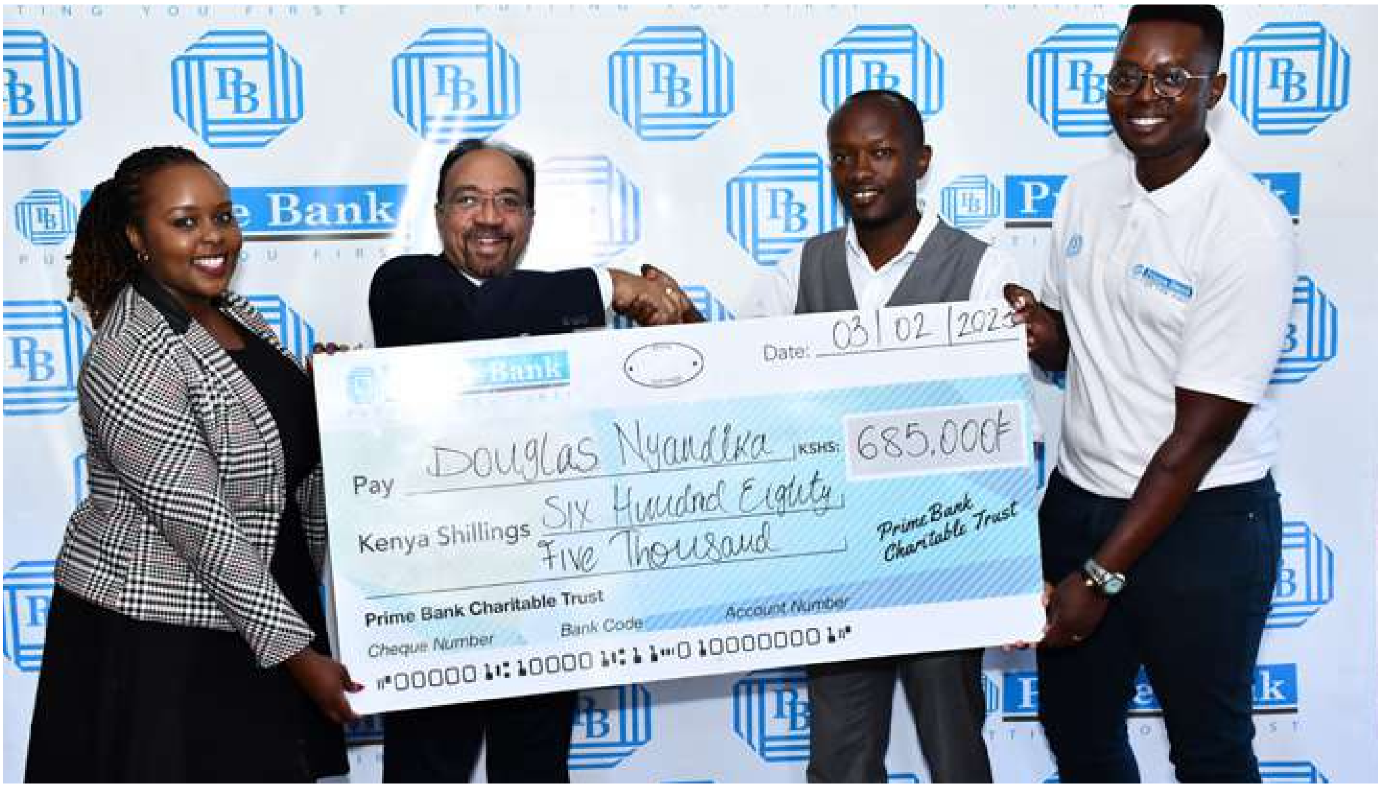
Prime Bank in partnership with Sunrise Walkers, Rotary Club of Parklands, Rotary Clubs of District 9212, Red Cross and Parklands Sports Club have donated 300 metric tons of food items to feed 20,000 families facing starvation. First Lady Mama Rachel Ruto flagged off 300 tons of relief food to support families affected by the prolonged drought in Garissa, Samburu, Baringo and Laikipia counties.

PRIME BANK IN FOOD DISTRIBUTION DRIVE AT KOROGOCHO

Prime Bank in partnership with the Office of the First Lady of the Republic of Kenya, County Government of Nairobi City, Spread Truth, and Bidco Africa distributed food to families facing food insecurity in Korogocho slums. First Lady Mama Rachel Ruto who led the exercise noted that it was imperative to take concerted and collaborative action to confront the food crisis that has been brought about by the effects of climate change adding that collective efforts as a nation must be geared towards supporting and empowering the most vulnerable in society.

PRIME BANK DONATES TOWARDS TREATMENT OF CHILDREN WITH HEART DISEASES

Prime Bank has donated KShs.1 Million towards treatment of children with congenital heart diseases in Kenya. Through charity, M.P Shah Hospital and Healing Little Hearts have embarked on their 10th medical mission aimed at treating at least 80 disadvantaged children with congenital heart diseases.



CONTRIBUTION TO THE FIELD OF MEDICINE

During the period under review, we continued to invest in communities we operate in. In the photo, Prime Bank Managing Director, Bharat Jani (second left), Head of Marketing, Connie Kirika (left), and Karen Branch Manager, Innocent Kiyimba (far right), presented a dummy cheque of KShs. 685,000 to Dr Douglas Nyandika. Prime Bank has sponsored Dr Nyandika with a full-year bursary to pursue a fellowship in Oncology at the University of Nairobi.

ONE MILLION TREES MARATHON

In 2023, Prime Bank was among the sponsors of the inaugural Lukenya University One Million Trees Marathon. This initiative, under the theme 'Running for a Greener Future', aims to plant 1 Million trees in five years.

NOTES

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