I&M BANK LIMITED
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2023

I&M Bank Limited is regulated by the Central Bank of Kenya

On Your Side

I&M | Bank 50

CELEBRATING
A GOLDEN LEGACY

50 YEARS

Regional Footprint

Kenya

1974

Mauritius

2008

Tanzania

2010

Rwanda

2012

Uganda

2021

I&M Bank Limited is regulated by the Central Bank of Kenya

On Your Side

CONTENTS

Abbreviations

In this document we have used the following abbreviations.

ACL	Allowance for Credit Losses
AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
BAC	Board Audit Committee
BCC	Board Credit Committee
BNRC	Board Nominations and Remuneration Committee
BPC	Board Procurement Committee
BRC	Board Risk Committee
BSTC	Board Share Transfers Committee
CAPEX	Capital Expenditure
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
CGU	Cash Generating Unit
CMA	Capital Markets Authority
CRMC	Credit Risk Management Committee
CS	Company Secretary
CSR	Corporate Social Responsibility
EAD	Exposure at Default
ECL	Expected Credit Losses
ED	Executive Director
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit and Loss
GDP	Gross Domestic Product
GPO	General Post Office
Group	I&M Bank Limited together with its subsidiary undertakings
GED	Group Executive Director
HRC	Human Resources Committee
IAS	International Accounting Standards
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFRSs	International Financial Reporting Standards
IMBIL	I&M Bancassurance Intermediary Limited
IMGP	I&M Group PLC
INED	Independent Non-Executive Director
NCI	Non-Controlling Interest
NED	Non-Executive Director
ITSC	IT Steering Committee
KShs	Kenya Shillings
LGD	Loss Given Default
M&A	Mergers and Acquisition
NSE	Nairobi Securities Exchange
OCI	Other Comprehensive Income
OPEX	Operating Expense
PBT	Profit Before Tax
PAT	Profit After Tax
PD	Probability of Default
PP&E	Property and Equipment
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
YIB	Youjays Insurance Brokers Limited

Corporate Information

Board Of Directors

Daniel Ndonye (Chairman – appointed on 12 July 2023)
Sarit S Raja Shah (Group Executive Director)
Gul Abbas Khan* (Chief Executive Officer- appointed on 14 February 2023)
Suresh B R Shah, MBS
Sachit S Raja Shah
M Soundararajan**
A. Nyambura Koigi
Nikhil R Hira
Muchemi Wambugu, MBS
Alan J Dodd
Phyllis K Wakiaga (Appointed on 29 January 2024)
Kihara Maina (Resigned on 14 February 2023)
Maximilian Biswanger*** (Resigned on 31 May 2023)
Oliver Fowler (Resigned on 13 June 2023)

* British
** Indian
*** German

Company Secretary

Stella W Gacharia (CS Kenya)
1 Park Avenue
1st Parklands Avenue
PO Box 101499 – 00101
Nairobi, Kenya

Auditor

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612 – 00100
Nairobi, Kenya

Registered Office

1 Park Avenue
1st Parklands Avenue
PO Box 30238-00100
Nairobi, Kenya

Correspondent Banks

Bank One Limited, Mauritius
Citibank NA, New York
Citibank NA, London
Commerzbank AG, Germany
HDFC Bank Limited, India
Habib AG Zurich, Switzerland
I&M Bank (Rwanda) PLC
I&M Bank (T) Limited
Standard Chartered Bank Frankfurt
Industrial Credit and Investment Corporation of India Bank (ICICI)
JP Morgan New York
Standard Chartered Bank New York
Standard Chartered Bank Hong Kong
Standard Chartered Bank Dubai
Standard Bank of South Africa
JP Morgan, London
I&M Bank (Uganda) Limited
Standard Chartered Bank London
JP Morgan Frankfurt

Corporate Information (Continued)

BRANCHES

NAIROBI

14 Riverside Drive
Riverside
PO Box 30238
00100 Nairobi

1 Park Avenue
1st Parklands Avenue
PO Box 30238
00100 Nairobi

Ansh Plaza
Biashara Street
PO Box 30238
00100 Nairobi

Cross Road
Off River Road
PO Box 30238
00100 Nairobi

Eastleigh Branch
3rd Floor, BBS Mall, General Waruinge
PO Box 30238
00100 Nairobi

Eldama
Eldama Park
PO BOX 30238
00100 Nairobi

Gateway Mall
Mombasa road
PO Box 30238
00100 Nairobi

Gikomba Branch
1st Floor, Nafuu Building, Kombo Munyiri Road
PO Box 30238
00100 Nairobi

GTC
Global Trade Centre, Chiromo lane, Westlands,
PO Box 30238
00100 Nairobi

I&M Bank House
2nd Ngong Avenue
PO Box 30238
00100 Nairobi

I&M Bank Tower
Kenyatta Avenue
PO Box 30238
00100 Nairobi

Industrial Area
Dunga road
PO Box 30238
00100 Nairobi

Karen Office Park
Langata Road
PO Box 30238
00100 Nairobi

Kenol Kobil Valley Arcade
Gitanga Road
PO Box 30238
00100 Nairobi

KCC Building
Changamwe Road
PO Box 30238
00500 Nairobi

Langata Link Complex
Langata South Road
PO Box 30238
00100 Nairobi

Lavington Mall
James Gichuru Road
PO Box 30238
00100 Nairobi

Lunga Lunga
Lunga Lunga Square
PO Box 30238
00100 Nairobi

Ongata Rongai
Maasai Mall
PO Box 30238
00100 Nairobi

Panari Centre
Mombasa Road
PO Box 30238
00100 Nairobi

Ridge Court
Parklands
PO Box 30238
00100 Nairobi

Ruaraka Branch
Kenafric Business Park
PO Box 30238
00100 Nairobi

Saifee Park
Kipevu Link, Opposite SaifeePark, Karen
PO Box 30238
00100 Nairobi

Sarit Centre
Karuna Road Westlands
PO Box 30238
00100 Nairobi

South C Shopping Centre
South C
PO Box 30238
00100 Nairobi

Spring Valley Business Park
Ground floor
PO Box 30238
00100 Nairobi

Village Market Shopping Complex
New Wing, 1st Floor,
Limuru Road
PO Box 30238
00100 Nairobi

Wilson Airport
Pewin House
PO Box 30238
00100 Nairobi

Yaya Centre
Argwings Kodhek Road
PO Box 30238
00100 Nairobi

COAST

Acacia Centre
Nyerere Avenue
PO Box 86357
80100 Mombasa

Airport Centre Mall
North Airport Road
PO Box 86357
80100 Mombasa

Diani Branch
Diani Beach Shopping Centre
PO Box 5600-80401
Diani

Haile Selassie Avenue
Patel Samaj Building
Mombasa

Kilifi Branch
Ganze Road, Kilifi
PO Box 339-80108
Watamu

Nyali Cinemax
Main Nyali Road
PO Box 86357
80100 Mombasa

Sabaki Centre
Lamu Road
PO Box 1125
80200 Malindi

Watamu Branch
Watamu Mall, Jacaranda Road
PO Box 349-80202
Watamu

WESTERN

Basic Moran Plaza
Ground Floor
PO Box 423
20500, Narok, Kenya

Bon Accord House
Oginga Odinga Street
PO Box 424
40100 Kisumu

Hotel Linton's Plaza
Ground Floor
Along Kisumu-Busia Road, Busia
PO Box 128
50400, Busia

Imperial Court
Uganda Road
PO Box 9362
30100 Eldoret

Mega Centre Mall
Makasembo Road
PO Box 2278
30200 Kitale

Royal Towers
Hospital Road
PO Box 4474
40200 Kisii

CENTRAL

80, West Place
Kenyatta Highway
PO Box 1207
01000 Thika

Hopewell Place
Gakere Road
PO Box 747
301 Nyeri

Nanyuki
Hussein Building
Nyeri Nanyuki Road
Nanyuki

P&K Plaza, Ground floor
Moi Avenue
Meru

Tatu City
Ground Floor, Eneos Building
off Kiambu Road

RIFT VALLEY

Naivasha Branch
Moi Avenue, Naivasha
PO Box 1710-20117
Naivasha

Polo Centre
Kenyatta Avenue
PO Box 18445
20100 Nakuru

I&M | Bank 50

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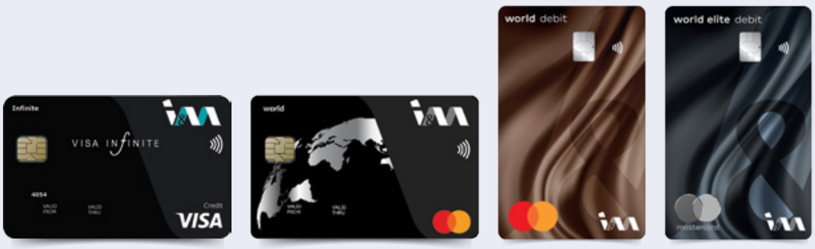

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On Your Side

Governance

On Your Side

Chairman's Statement

I am pleased to present the I&M Bank LIMITED Annual Report for the financial year 2023 on behalf of the I&M Bank Kenya Board of Directors. 2023 saw the opening of the economy after the 2022 general elections in Kenya. There were bursts of political tension and uncertainty in the first half of the year, however the country was resilient in rebuilding the economy after the tough COVID-19 years and electioneering period. The opening up of the economy presented growth opportunities for the Bank that we capitalized on in the last year of our iMara 2.0 strategy to deliver a strong set of financial results.

KENYA 2023 ECONOMIC PERFORMANCE AND 2024 ECONOMIC OUTLOOK

Kenya's economic performance strengthened in 2023 despite continued challenges, with real GDP growth accelerating from 4.8% in 2022 to an estimated 5% in 2023 as per the 28th edition of Kenya Economic Update. The improved growth performance is attributed to a strong rebound in the agricultural sector in 2023 following a persistent and severe drought in 2022. There was also moderate growth in the services sector. Kenya, like other countries in the world, was impacted by global geo-political shocks arising from the Russia-Ukraine and Israel-Palestine wars.

Growth in the banking industry remained strong driven by adequate capitalisation and liquidity. The industry deployed robust asset and liability management to bolster resilience and efficiency that drove significant growth in the banking sector despite the rising inflation and volatilities in the global and domestic financial markets.

The World Bank, borrowing from the Kenya Economic Update projects that real GDP will grow between 4.5%–5.2% in 2024 driven by improved investor confidence and credit to the private sector, backed by reduced domestic borrowing by the government that will strengthen private investment in the medium term. Domestic risks could impact the outlook with drought and flooding driving up inflationary pressures and food insecurity whereas external risks stemming from global credit markets volatility, elevated commodity prices driven by increased international conflicts and slower growth rates in the Euro zone could impact the growth outlook.

The new Government has prioritised various policy interventions to raise both productivity and resilience at the household, producer, and national levels, in a bid to improve the current national economic status. This has been planned despite challenges in the macro-economic environment such as the rising cost of living and climate change shocks. In tandem, banks have set-up policies and initiatives to support the Government in its policy interventions aimed at uplifting Kenyans' socio-economic status. Through this, they have accelerated strategic initiatives that coincide with the Government's plans or developed new initiatives that will enhance capabilities to tap into opportunities that arise from these interventions.

FINANCIAL PERFORMANCE

The Bank's balance sheet grew by 28% to close at KES 405.61 billion in the period under review. Total operating income saw a significant growth of 14% to close at KES 21 billion driven by an increase of 19% in Net Interest Income. The Bank posted a 7% increase in operating profit. Profit Before Tax marginally declined by 1% driven by increased provisions to close at KES 12.1 billion. Interest expense grew by 19%, attributed to the high cost of funds. Customer deposits grew from KES. 233.80 billion in 2022 to close at KES 306 billion representing a 31% increase. The Bank's Net Loans and Advances recorded a growth of 26% versus the prior year to close at KES 231 billion. Gross Non-Performing Loans increased marginally to close at 5.1% in the year under review. The Bank's customer base grew by 27% in the period under review with Current and Savings Accounts (CASA) ratio growing by 6% from 34% in 2022 to 40% in 2023. 93% of the Bank's customer base were digitally active during the period under review. Revenue from new business increased to 24.4% in 2023 from 12.4% in the previous year. Brand Awareness increased from 5% to 20% in the same period driven by relevant product marketing campaigns while the Net Promoter Score closed at 71%.

IMARA 2.0 STRATEGY IMPLEMENTATION

I) MARKET DRIVEN SOLUTIONS

The Bank in 2023 went all out to drive penetration into the Retail segment through offering relevant product solutions for customers. This saw the Bank roll out the free bank-to-mobile wallet (M-PESA and Airtel Money) transfers for all personal banking customers under the campaign dubbed 'Ni Sare Kabisa' in response to Kenyan's hue and cry over the high cost of living. To-date, only one other bank is offering this solution.

The Bank also rolled out the largest Unsecured Personal Loan of up to KES 10 million again to address the high cost of living and shrinking disposable income available to salaried customers. Under the digitization pillar, the Bank continued to offer Unsecured Personal and Business Loans via the I&M On The Go (OTG) platform.

The Bank continued to offer relevant product solutions to the MSME space with heightened focus on Stock Financing via the USSD short code *438# in partnership with our anchor clients, Working Capital solutions, LPO Financing and Invoice Discounting.

The Bank continued to develop its leadership in the Corporate and Commercial banking segment. 2023 saw the Bank enter new sectors; Oil & Gas and Public sector in a bid to diversify our participation choices.

The Transactional Banking arm of the Bank continued to drive delivery of payment and collection solutions for our Corporate, Commercial and MSME customer base through the Web Pay, Remote Cheque Scanning, Cash Management Service, Direct Debit Scheme, Business and Cash Management solutions. During the year, the Paybill collections solution was relaunched under the name 'Lipa Na I&M Bank'.

Chairman's Statement (Continued)

The Bank through I&M Bancassurance Intermediary Limited continued to offer General and Life Insurance solutions to both account holders and non-account holders. The Insurance Premium Financing (IPF) solution has recorded good growth during the year under review.

II) BUILDING RESILIENCE

The Bank continued to drive various initiatives to build resilience against emerging risks in its liquidity and funding pillars with full utilization of the Anti-Money Laundering system aimed at monitoring financial crime risk and the Operational Risk Management System for operational risk monitoring in line with best practice in the industry.

The Bank continued to augment its Environmental, Social and Governance (ESG) Framework, which guides our sustainability strategy, business activities, and relationship with stakeholders such as employees, shareholders, the community, regulators, and service providers. The Green Energy Fund of Kes 6 billion was taken up to the tune of over 50% during the year by customers investing in clean energy projects as they sought to move to more environmentally friendly solutions. The fund has accommodative repayment terms to enhance cost efficiency for our customers' production as well as lower the carbon footprint. The threat of cyber fraud has become very rampant across the industry. The Bank continued to invest in initiatives to build its cyber security resilience, which is critical given the heavy IT infrastructural investments made over the last few years. This has seen our Cyber Security risk maturity levels go up due to the continued investment in training the business, in a bid to ensure that they act as the first line of defense against cyber security threats.

III) INFRASTRUCTURAL INVESTMENTS

The Bank continues to invest in strengthening its IT and data-management infrastructure. The Enterprise Data Warehouse structure set up in 2022 for data-driven decisions on product development initiatives and credit-decisioning has resulted in the Bank having an early watch list mechanism to enhance monitoring of performance of the loan book and our Business Development teams are able to engage clients with the right financial solutions based on the customer's financial and lifestyle requirements.

IV) PAMOJA AS A WAY OF LIFE

The Bank's Employee Engagement score improved from 74% in 2022 to 76% in 2023, a testament to the investment the Bank has made in its staff. Under the iMara strategy, the Bank has a cultural transformation pillar that drives entrenchment of the I&M Way as the bedrock for delivery of business objectives. The cultural transformation program dubbed 'Pamoja' is engrained into our processes and in the way that staff engage with each other and our various stakeholders. Pamoja focuses on delivering a collaborative, agile, candid, risk- intelligent, empowered and data-driven culture underpinned by the values of integrity, respect, trust, innovation and courage.

V) SHARED GROWTH AGENDA

The Bank continues to be a pioneer in the shared growth agenda with the setting aside of 2% of the Bank's profits every year for the I&M Foundation. The I&M Foundation aims to deliver positive impact to the society through social investment programs that create shared value for stakeholders. The I&M Foundation runs programs in 4 pillars: Environmental Conservation, Education and Skills Development, Economic Empowerment and Enabling Giving.

In 2023, the I&M Foundation invested heavily in the Education and Skills Development pillar and continued the scholarship programs with Palmhouse Foundation, Strathmore University and St. Anne's Suresh Raja Secondary School. The I&M Foundation also signed a new partnership worth KES 6.25 million with Moringa School in support of the Access Program to enable over two dozen students to learn software development with a view to creating job opportunities in the digital space.

Under the Enabling Giving pillar, the I&M Foundation in partnership with Grevy Zebra Trust (GZT) provided food donations to over 400 families in Samburu and Isiolo counties to alleviate the impact of the severe drought witnessed in late 2022 into early 2023.

In the Environmental Conservation pillar, the I&M Foundation continued its partnership with the Kenya Community Development Foundation to promote sustainable environment in Narok and Kilifi counties. The I&M Foundation together with the Bank's employees participated in the countrywide National Tree Growing Tree with over 500 trees planted. The I&M Foundation in partnership with Miti Alliance, rolled out a schools greening program in ten public primary schools located in Kiambu County focused on empowering and equipping 4,000 school-going children with knowledge, skills and understanding of climate change issues with a target of growing one hundred high-value trees per school, specifically fruit and indigenous trees, which are well adapted to their environment and are integral to the function of an area's ecosystem. The project was implemented in ACK Karura, Gikambura, Kamangu, Kanjeru, Karura Ka Nyungu, Nachu, Njumbi, Riu Nderi, Thirime, and Thogoto Model primary schools.

Through the Economic Empowerment pillar, the Foundation continued its investment in the Maa Trust Women Beadwork Project in a bid to cushion the Trusts' beneficiaries from the continued impact of the COVID-19 pandemic. The project has helped 579 Maasai women in their traditional handicraft (beadwork) and assists in developing markets for the beaded products.

The I&M Foundation and I&M Bank fraternity also had a CSR day where different activities under the Enabling Giving and Environmental Conservation pillars were conducted across the country aimed at improving lives in the communities we serve, to enhance the Bank's shared value proposition.

Chairman's Statement (Continued)

FUTURE OUTLOOK

2023 marked the end of the iMara 2.0 strategy phase with 2024 marking the beginning of the iMara 3.0 strategy phase. During this new phase, the Bank's long-term ambition remains to be 'East Africa's leading financial partner for growth' with 3-year objectives of: 1 million new customers, 10 million lives impacted, best bank for customer experience with NPS scores of +70% and >90% digitally active customers.

The participation choices for the Bank are: to Develop Leadership in our core segments (Corporate and Commercial); Build Relevance in emerging customer segments (Retail and SME) and; Become a leader in Ecoystems. The Bank will invest in Building Brand Relevance, Group Synergies, Business Resilience, Digitization and Cultural Transformation.

The Bank will as a key focus area embed Sustainability across our business and value chain to positively impact our stakeholders and leverage I&M Foundation to further sustainability initiatives. Our Sustainability action plan has defined the participation choices as: Enabling last mile financial solutions to drive inclusion access and usage, Build a sustainable business and Enhance the quality of life in society. This will be done through scaling solutions via ecosystems and partnerships, creating impact through collaboration and leveraging the I&M Foundation.

ACKNOWLEDGMENT

I would like to extend my gratitude to various stakeholders that contributed to the delivery of this set of results for 2023:

Our Customers: We take this opportunity to thank you for choosing I&M Bank Kenya and for trusting in our financial solutions. We remain committed to offering you relevant market driven solutions that meet your financial needs.

Our shareholders: Your continued belief and confidence in our strategic approach and investment decisions is much appreciated. We will continue to build your shareholder value by growing the Bank's revenue, improving business efficiency and practicing prudent cost management in line with the corporate strategy.

Our Staff: Thank you for living the I&M Way in all your interactions with our stakeholders. Your commitment to delivering on the business targets whilst ensuring a superior customer experience has yielded a great set of financial and operational results. Pamoja, Together We Shine.

My fellow Directors: Your wise counsel, collaboration and guidance in providing strategic direction for this organisation is highly appreciated.

Our regulators: Thank you to the Central Bank of Kenya, Capital Markets Authority, and Insurance Regulatory Authority for the guidance provided to the Bank.

Ahsanteni Sana!

Daniel Ndonye
Chairman

2nd April 2024

STATEMENT OF CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK

I&M Bank LIMITED (Bank, Company or 'I&M') is committed to ensuring the highest standards of governance, including integrity, transparency, and accountability across all levels. The Bank continues to nurture a strong culture of governance and risk management in line with the Bank's risk appetite and governance framework. The Bank's policies, practices and procedures are constantly monitored and reviewed to ensure that they remain relevant to the business environment and facilitate delivery of sustainable value to its shareholders, whilst remaining focused on its responsibility to society at large.

The Board has applied the principles of sound corporate governance as mandated in the Central Bank of Kenya Guidelines on Corporate Governance and in line with best practice adopted at the Group level. I&M Bank is licensed and regulated by the Central Bank of Kenya.

Our Board

BOARD STRUCTURE

The Bank's Articles of Association provide that the Board shall consist of not less than five (5) and not more than twelve (12) directors. During the year under review, the Board comprised 11 directors which included six (7) Independent Directors, two (2) Non-Executive Directors, and two (2) Executive Directors including the Chief Executive Officer. The Board is chaired by an Independent Director. Non-Executive Directors constituted 80% of the Board well above the requirement in the Central Bank of Kenya Prudential Guidelines that stipulates that Non-Executive Directors should not be less than three-fifths of the directors. This is also in line with the Group's Corporate Governance policy that stipulates that the Board shall at all times have at least one third of its members as Independent Directors. In 2023, there was a transition in the position of Board Chairman from Mr Oliver Fowler who resigned from the Board on 13 June 2023, to the new Board Chairman, Mr Daniel Ndonye, who was appointed to the Board with effect from 12 July 2023.

There are no Alternate Directors.

Daniel Ndonye
Chairman
Independent Non - Executive Director
(appointed 12th July 2023)

Mr. Daniel Ndonye is a chartered accountant by profession, having worked with Deloitte & Touche for over 30 years, 20 of which he was the Managing/Senior Partner. He is a fellow of the Institute of Chartered Accountants in England and Wales, the Institute of Certified Public Accountants of Kenya and the Institute of Certified Secretaries of Kenya. He has a broad range experience at Board level and sits on the boards of several companies including Kakuzi Plc and APA Insurance.

Suresh B R Shah, MBS
Non - Executive Director

Mr. Suresh Raja Shah is a founder member and Chairman Emeritus of the Board. He has vast experience in the banking industry and in business. In December 2002, he was bestowed the Honour of a Moran of the Order of the Burning Spear. He sits on the boards of several companies.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Our Board

Sarit S Raja Shah
Group Executive Director

Mr. Sarit S Raja Shah has been the Executive Director of I&M Bank since 1993 and was appointed as Group Executive Director in August 2018. He holds a master's degree in Internal Audit and Management from City University London. He also serves on the boards of several companies including GA Insurance Limited.

Committee memberships:

- Board Nomination & Remuneration Committee
- Board Risk Committee
- Board Procurement Committee
- Board Credit Committee

Gul Abbass Khan
Chief Executive Officer
(Appointed 14 February 2023)

Mr. Khan has over 23 years of international financial services experience, mostly with HSBC Bank having worked in Europe, North America, Asia, Middle East and Africa. Mr. Khan is recognized as a leader in both the banking and fintech industries with a proven track record of delivering growth and transformation.

Prior to becoming the Chief Executive officer of the Bank, Mr. Khan was the Head of Products at Airtel Money Africa, where he played a key role in driving financial inclusion across 14 African markets.

Sachit S Raja Shah
Non - Executive Director

Mr. Sachit S. Shah holds a Bachelor of Science degree in Banking and Finance from City University London. He is a Director of GA Insurance Limited. He has previously worked at HSBC and Citibank in London. He sits on the Boards of various companies.

Committee memberships:

- Board Risk Committee
- Board Procurement Committee

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Our Board

Nikhil R Hira
Independent Non - Executive Director

Mr. Hira joined the Board in February 2019. He is a Partner in Kody Africa LLP and the Executive Regional Director of the Eastern Africa Association. He is a former partner of Deloitte East Africa. He holds a BSc Joint Honours in Accountancy and Process Engineering from the University of Salford, England. He is a Fellow of the Institute of Chartered Accountants in England and Wales, fellow of the Institute of Certified Public Accountants of Kenya and also registered with similar institutes in Uganda and Tanzania.

He headed the tax practice for Deloitte in the East Africa region and was the Technology, Media and Telecom industry leader. He has specialised in taxation since 1987 in various jurisdictions around the world including the UK and East Africa. Mr. Hira sits on several boards including GA Insurance and I&M Bank (Rwanda) Limited.

Committee memberships:
- Board Audit Committee (Chairperson)
- Board Nomination & Remuneration Committee
- Board Credit Committee

M. Soundararajan
Independent Director

Mr. Soundararajan joined the board as an independent director in 2009. His illustrious banking career spans about four decades, initially in India and the United States of America and then in Kenya from 1988. He has held senior executive and leadership positions in Standard Chartered Financial Services as Assistant Director, Corporate Finance; Commercial Bank of Africa (now NCBA) as Director, Corporate Banking; CFC Financial Services (now SBG Securities) as its first Managing Director and CFC Bank as Managing Director before its acquisition by Stanbic Bank in 2008. He served on the board of Central Depositary & Settlement Corporation (CDSC) for four years from 2004 to 2008. He is currently the Country Head of Meghraj Group of Companies in Kenya. Mr. Soundararajan also serves on the Board of I&M Bank Tanzania where he is an Independent Director and the Board Chairman. He also sits on the boards of GA Insurance, GA Life Assurance, GA Insurance-Tanzania and Car & General (Kenya) Plc. He served on the board of Central Depository & Settlement Corporation (CDSC) for four years from 2004 to 2008. Mr. Soundararajan holds a Master of Arts degree from Madras University, India and a Certificate in International Banking from New York University.

Committee memberships:
- Board Nomination & Remuneration Committee (Chairperson)
- Board Credit Committee
- Board Audit Committee
- Board Risk Committee
- Board Procurement Committee

A. Nyambura Koigi
Independent Non - Executive Director

Dr. Koigi joined the Board in April 2015. She has worked in various capacities in the financial sector including banking, business development, information technology and was the Managing Director at Postbank for nine years. Nyambura is also trained in management of Pensions Funds, is a certified trainer in corporate governance and in alternative dispute resolution-mediation.

She holds a Doctorate in Business Administration from the Nelson Mandela Metropolitan University, Master of Business Administration and Bachelor of Arts Degree both from the University of Nairobi, trained in microfinance from the Boulder Institute of Microfinance. She is a Fellow of the Institute of Certified Secretaries of Kenya and the Kenya Institute of Management and a member of the Institute of Directors. She sits in several private and public sector boards.

Committee memberships:
- Board Risk Committee (Chairperson)
- Board Audit Committee

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Our Board

Muchemi Wambugu, MBS
Independent Non - Executive Director

Mr. Wambugu joined the Board in February 2019. He is a Management Consultant and founder of Sirius Consult. He holds an Honors degree in Commerce, majoring in Management Information Systems from the University of Manitoba, Canada, and a master's Certificate in Project Management from the University of California-Berkeley, USA.

He is a certified member of the Project Management Institute (PMI) and also an International Coaching Federation certified Executive and Systemic Team Coach. He sits on the boards of several other organizations

Committee memberships:
- Board Procurement Committee (Chairperson)
- Board Risk Committee

Alan J Dodd
Independent Non - Executive Director

Mr. Dodd joined the board in 2021 having had a long distinguished career in banking spanning over 43 years. He has a wealth of experience having served the banking industry in various executive capacities in Kenya, Asia and the Middle East. The first 28 years of his career were spent with Standard Chartered Group, latter in East Africa where he rose to the position of Executive Director responsible for Corporate and Service Quality. In 2006 he joined NIC Bank Kenya Ltd (now NCBA), where he held the position of Executive Director responsible for Corporate, Asset Finance, including Leasing, and Bancassurance until end of 2020.

Mr. Dodd holds a BA (Hons) degree in Economics from University of Portsmouth, UK and is a member of The London Institute of Banking and Finance. He brings significant knowledge and experience in the financial sector, governance protocols, risk management disciplines and customer service. He sits on several boards including GA Insurance and I&M Bank (Rwanda) Limited.

Committee memberships:
- Board Credit Committee (Chairperson)
- Board Audit Committee
- Board Nomination & Remuneration Committee
- Board Procurement Committee

Phyllis K Wakiaga
Independent Non - Executive Director
(Appointed on 29 January 2024)

Ms. Phyllis Wakiaga joined the Board of I&M Bank Kenya Limited with effect from 29th January 2024 following receipt of approval from the Central Bank of Kenya. Phyllis is the former Chief Executive Officer and Secretary to the Board at Kenya Association of Manufacturers (KAM), where she served for 9 years. She is currently a Senior Advisor, at the Tony Blair Institute for Global Change.

Phyllis is an Advocate of the High Court of Kenya with over 18 years of experience in Corporate Leadership, Governance, Public Policy, Government Relations, Sustainability and Private Sector development. She has served on several boards over the years including Kengen, Kenya Roads Board, BAT Kenya, MRM, Institute of Economic Affairs, International Centre for Research on Women (Africa Board) amongst others.

She holds a Masters' degree in International Trade and Investment Law from the University of Nairobi and an Executive Master of Business Administration from Jomo Kenyatta University of Agriculture and Technology and is currently a Ph.D. student in Leadership and Governance at the same institution.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Our Board

Oliver Fowler
Independent Non - Executive Director
(Resigned 13 June 2023)

Mr. Oliver Fowler is a qualified Kenyan Advocate and an English Solicitor. He is a retired Partner of Kaplan & Stratton Advocates. His practice encompassed commercial work, particularly financial, corporate and taxation matters. He has been extensively involved in project finance, capital markets, banking and foreign investments sectors. He holds an LLB from University of Bristol and was admitted to the Kenyan Bar in 1979. He sits on the boards of several companies.

Kihara Maina
Regional Chief Executive Officer
(Resigned on 14 February 2023)

Mr. Kihara Maina, joined I&M Bank as the Chief Executive Officer and Board member in May 2016, a position he held up to February 2023 when he was appointed as the Regional Chief Executive Officer. He holds a Bachelor's degree in Mathematics from Moi University and an Executive MBA from the University of Chicago – Booth School of Business. He began his banking career in June 1993 at Stanbic Bank Kenya then moved to Barclays Bank of Kenya (now Absa Bank Kenya) in 1997 where he served extensively over the years ultimately taking up senior leadership positions. Prior to joining I&M Bank, Kihara was the Managing Director of Barclays Bank Tanzania (now Absa Bank Tanzania).

Maximilian Biswanger
Non-Executive Director
(Resigned 31 May 2023)

Mr. Biswanger joined the Board in 2021 as a representative of CDC Group Plc (now British International Investment Plc (BII)). He is an Investment Director at BII's Financial Services Group, Equity and leads the group's equity investment activities in Digital Financial Services. He is also a member of the Board of Directors at M-Kopa, Africa's leading connected asset financing company, and at Tyme Global, a leading emerging market neobanking group with activities in Africa and South East Asia. Prior to joining BII, he worked in Mergers & Acquisitions at Rothschild & Co. He holds a dual degree in International Business Science from the European School of Business, Germany and Universidad Pontificia Comillas - ICADE, Spain, a MLitt in Peace & Conflict Studies from University of St Andrews, UK and a Postgraduate Diploma in Philosophy from Birkbeck, University of London. He has a wealth of experience in private equity / development finance investments in financial services companies across Africa and South Asia.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

SEPARATION OF ROLES AND RESPONSIBILITIES

The Board has a comprehensive Board Charter which is reviewed every two years to ensure it remains updated with changes in the law, the Bank's operating environment and best practice. In line with this, the Board revised its Board Charter in 2023. The Board Charter clearly outlines the separation of roles between the Board and Management. The specific roles and responsibilities to be discharged by the Board, its committees and directors, individually and collectively are clearly outlined in the Board Charter. The Board ensures that the functions of the Chairperson and the Chief Executive Officer (CEO) are not exercised by the same individual.

Whilst the CEO is responsible for providing leadership and direction in the day-to-day operations of the Bank directed toward implementation of a long-term vision and strategy, the Chairperson is tasked with the responsibility of effectively leading the Board, fostering a constructive governance culture and maintaining relevant links between all stakeholders.

ROLES & RESPONSIBILITIES

The Board's primary responsibility is to act in the best interests of the Bank and its shareholders with a view of enhancing the value of the Bank's assets. The Bank's governance framework enables the Board to effectively discharge its roles and responsibilities of oversight and strategic guidance while ensuring compliance with regulatory requirements and the Bank's risk appetite parameters.

Further, the Board ensures that at the heart of the organisation, there is a culture of honesty, integrity and excellent performance.

SKILLS, EXPERIENCE AND DIVERSITY

The Bank is led by a competent Board with diverse skills. Collectively, the Board has vast experience stemming out of the individual Director's varied backgrounds across a multitude of disciplines.

TENURE

The tenure of independent Directors is set at a maximum of 9 years save for exceptional circumstances where the tenure of a director may be extended by the shareholders. Further, the term of office of various Directors is organised in a manner that ensures a smooth transition.

BOARD SUCCESSION PLANNING

The Board, through the Board Nomination & Remuneration Committee, reviews succession planning and transitions at the Board and Senior Management level. In considering potential directors, the Board seeks to not only identify candidates with appropriate skills, knowledge and experience to steer the Bank effectively but also ensure achievement of diversity in its composition as set out in the Board Succession Policy. Gender diversity is an area of improvement for the Board and there are concerted efforts to recruit suitably qualified female directors when a vacancy arises on the Board. All directors receive formal letters of appointment setting out the main terms and conditions of their appointment.

BOARD INDUCTION, ORIENTATION & CONTINUOUS PROFESSIONAL DEVELOPMENT

All new Directors are appropriately introduced to the business of the Bank and the Group. During the induction session, they are provided with a comprehensive information pack containing a presentation on the affairs, strategy, governance structure & conduct of meetings, the director's duties and responsibilities, the Bank's constitutive documents and other such useful documents. In addition, as part of the induction process, incoming Directors have one-on-one sessions with senior management and visit some of the key branches and departments to better understand the operations of the Bank.

All directors have access to the advice and services of the Company Secretary, who is responsible for providing guidance to the Directors as to their duties, responsibilities and powers.

Directors, through the Group Executive Director and Chief Executive Officer, have access to Senior Management to obtain information on items to be discussed at board meetings or meetings of board committees or on any other area they consider to be appropriate.

Furthermore, the Board and its Committees also have the authority to obtain such outside or other independent professional advice as they consider necessary to carry out their duties.

In addition, the Bank organises for its Board members, up-skilling and continuous development programs in order to enhance governance practices within the Board itself. Tabulated below are the programs held during the year. The Group also availed various other virtual trainings to Directors in all subsidiaries on areas such as fraud risk management, cyber risk intelligence and anti-fraud and corruption.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

BOARD INDUCTION, ORIENTATION & CONTINUOUS PROFESSIONAL DEVELOPMENT - (CONTINUED)

Training description	Date undertaken	No. Of hours
Training on the recent Banking crisis	11 May 2023	7 Hrs
Training on Corporate Governance – Best Practices for Board Effectiveness		
Training on Business Continuity Management		
Training On Sustainability		
Audit & Risk Conference: Rethinking Resilience to Thrive in a VUCA World	18 October 2023 & 19 October 2023	16 Hrs

BOARD MEETINGS

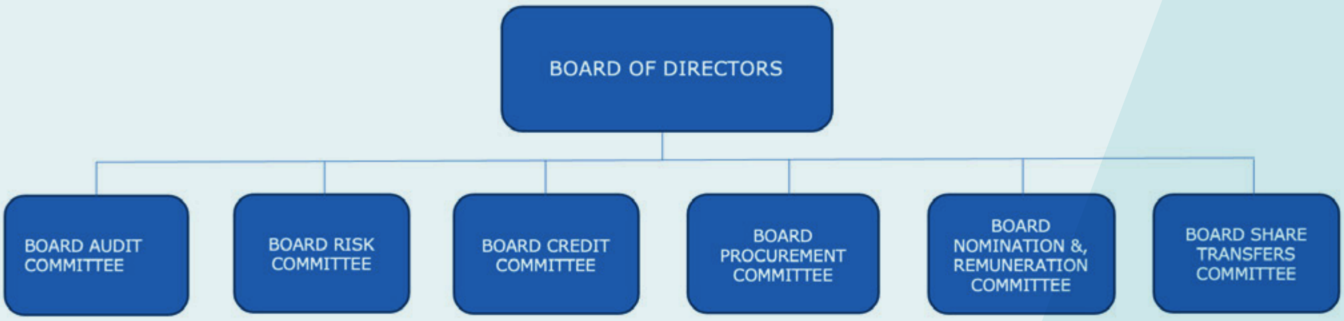
The Board meets at least once every quarter and additionally when necessary to consider and deliberate on matters relating to the overall business.

The Board has in place an annual work plan that sets out the Board activities for the year. The Chairperson, in conjunction with the Company Secretary works closely with the Chief Executive Officer to develop the annual work plan and to set the agenda for each meeting. The Directors receive the notice, agenda and board papers well in advance of the meetings.

The quorum requirements for Board meetings are guided by the Bank's Articles of Association and are met when members attend, either in person, or by tele or video conference. Proceedings of all meetings are recorded by the Company Secretary and the minutes of each meeting signed by the Chairperson of the meeting.

BOARD COMMITTEES

The Board has set up several Board and Management Committees to assist in discharging its responsibilities.
These are as shown below.



STATEMENT OF CORPORATE GOVERNANCE (Continued)

BOARD COMMITTEES

Tabulated below are Board Committees, their composition and membership, functions and the frequency of meetings:

	Board Audit Committee	Board Risk Committee	Board Credit Committee	Board Procurement Committee	Board Nomination & Remuneration Committee	Board Share Transfers Committee
Structure	• 4 Independent Directors including the Chairman.	• 3 Independent Directors including the Chairman. • 1 Non-Executive Director (NED) • Group Executive Director • CEO	• 3 Independent Directors including the Chairman. • Group Executive Director • CEO	• 3 Independent Directors including the Chairman. • 1 NED • Group Executive Director • CEO • GCOO • GCFO	• 3 Independent Directors including the Chairman. • Group Executive Director	• 2 NED including the Chairman. • Group Executive Director • CEO
Composition	• Nikhil Hira, Chair • A.Nyambura Koigi • M Soundararajan • Alan Dodd	• A.Nyambura Koigi, Chair • M Soundararajan • Muchemi Wambugu • Sachit S Shah • Sarit S Raja Shah • Gul Khan	• Alan Dodd, Chair • M Soundararajan, • Nikhil Hira • Sarit S Raja Shah • Gul Khan	• Muchemi Wambugu, Chair • M. Soundararajan • Sarit S Raja Shah • Alan Dodd • Sachit S Shah • Gul Khan • Amit Budhdev	• M Soundararajan, Chair • Nikhil Hira • Alan Dodd • Sarit S Raja Shah • Gul Khan	• SBR Shah, Chair • Sarit S Raja Shah • Sachit S Shah • Gul Khan
Regular Invitees	• Chief Audit Executive • Group Chief Audit Executive • Group Executive Director • CEO • Group Chief Operating Officer • Director Group Business Development • Company Secretary	• Group Chief Operating Officer • Group Chief Risk Officer • Head of Compliance • Group Chief Information Security Officer • Group Chief Audit Executive • Chief Audit Executive • Company Secretary	• Divisional Head-Business Development • Group General Manager Credit • Assistant General Manager Credit • Assistant General Manager, Debt Recovery Unit • Company Secretary	• Senior Manager Procurement • Group Chief Information Officer • General Manager, Projects • Company Secretary	• CEO • Group Chief Operating Officer • Group General Manager HR • Company Secretary	• A member of Senior Management at the discretion of the Committee
Frequency Of Meetings	Quarterly	Quarterly	Bi-Quarterly	Quarterly	Half yearly	On need basis
Main Functions	• Ensure establishment of an adequate, efficient and effective internal audit function. • Review structure and adequacy of internal controls. • Review and co-ordinate between External Auditors and Internal Audit Department. • Review and receive CBK Inspection Report and ensure implementation of recommendations therein.	• Ensure that the Risk management framework and the processes as approved are implemented. • Review, monitor and deliberate on the appropriate risk mitigation approach. • Ensure business continuity planning is formulated, tested and reviewed periodically. • Review of policies, procedures and exposure limits. • Review of proposed strategic initiatives. • Creating awareness about Risk Management Process in the Bank. • Ensure that the Risk management strategies are designed to manage social, environmental risks and promote good sustainability practices across all Bank's activities	• Review lending policy. • Consider loan applications beyond discretionary limits granted to CRMC. • Review lending by CRMC. • Direct, monitor, review all aspects that will impact upon present and future Credit risk management at the Bank. • Ensure compliance with Banking Act and Prudential Guidelines. • Conduct independent loan reviews as and when appropriate	• Review and approve the Procurement Policy. • Review and consider significant procurement proposals / consultancy assignments above the delegated authority limit of the Group Executive Director's (GED) • Vet agreements/ procurement proposals from related parties. • Review and ratify unbudgeted capital expenditure above Group Executive Director's delegated authority limits.	• Assessment of Board requirements for non-executive directors. • Induction programs for new Directors and development programs to build individual skills and improve Board effectiveness. • Board succession planning. • Performance evaluation of the Board of Individual Directors and of the GED & CEO • Set remuneration policies & strategic objectives of Board, GED & CEO. • Policies in relation to the ESOP Scheme and provide requisite guidance to Scheme Trustee.	• Ensure that any new shareholders meet the Board's criteria of good standing. • Approve/reject applications for the transfer of shares and approve registration of such transfers. • Give guidance and approve any share allotment arising out of a bonus/rights issue. • Sign the Share Certificates, under Company Seal, to be issued to any shareholder.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

BOARD COMMITTEES - (CONTINUED)

A summary of the composition, responsibilities and key activities achieved by the Board Committees is outlined below:

(i). Board Audit Committee (BAC)

Mr. Nikhil Hira (Chairperson)

Responsibilities: The key responsibilities of the BAC are to assist the Board in fulfilling its statutory and fiduciary responsibilities, by providing objective and independent oversight of the Bank's external reporting of financial information and the internal control environment and to recommend appropriate remedial action where required.

2023 Activities: BAC held nine scheduled meetings in the year including two meetings with the external and internal auditors without Management. The Committee undertook its roles and responsibilities as outlined in its Terms of Reference, the CBK Prudential Guidelines and as per the Committee's annual work plan.

(ii). Board Risk Committee (BRC)

A. Nyambura Koigi (Chairperson)

Responsibilities: The key responsibilities of the BRC are to discharge its duties relating to risk management and controls, assurance and reporting. This includes ensuring quality, integrity and reliability of the Bank's enterprise risk management framework.

2023 Activities: BRC held four scheduled meetings and one special meeting in the year. The Committee undertook its roles and responsibilities as outlined in its Terms of Reference, the CBK Prudential Guidelines and as per the Committee's annual work plan.

(iii). Board Credit Committee (BCC)

Mr. Alan Dodd (Chairperson)

Responsibilities: The key responsibilities of the BCC are to assist the Board in reviewing and overseeing the overall lending of the Bank. This includes ensuring sound lending in line with established lending limits.

2023 Activities: BCC held eight scheduled meetings and six special meetings in the year. The Committee undertook its roles and responsibilities as outlined in its Terms of Reference, the CBK Prudential Guidelines and as per the Committee's annual work plan.

(iv). Board Nomination & Remuneration Committee (BNRC)

Mr. M. Soundararajan (Chairperson)

Responsibilities: The BNRC is responsible for all aspects of the Bank's appointment and remuneration of Board Directors. The Committee also regularly reviews the composition of the Board and assesses the mix of skills and experience to facilitate effectiveness of the Board.

2023 Activities: BNRC held four scheduled meetings and two special meeting in the year. The Committee undertook its roles and responsibilities as outlined in its Terms of Reference, the CBK Prudential Guidelines and as per the Committee's annual work plan.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

BOARD COMMITTEES - (CONTINUED)

(v). Board Procurement Committee (BPC)

Mr. Muchemi Wambugu (Chairperson)

Responsibilities: The BPC assists the Board in fulfilling its responsibilities by reviewing and approving procurement proposals above the delegated approval limits established for Management as guided by the Bank's projects and products governance framework.

2023 Activities: BPC held four scheduled meetings and one special meeting in the year. The Committee undertook its roles and responsibilities as outlined in its Terms of Reference and as per the Committee's annual work plan.

BOARD ATTENDANCE

The following table shows the number of meetings held during the year and the attendance of individual Directors

Name of Director	12/01/23	17/03/23	12/06/23	11/09/23	01/12/23	11/12/23	Total Board meetings attended in 2023
Oliver M Fowler (Chairman) (resigned June 2023)	√	√	√	n/a	n/a	n/a	100%
Daniel Ndonye (Chairman) (appointed July 2023)	n/a	n/a	n/a	√	√	√	100%
Suresh B R Shah (Chairman Emeritus)	x	√	x	√	√	√	67%
Sarit S Raja Shah	√	√	√	√	√	√	100%
Sachit S Raja Shah	√	√	√	√	√	√	100%
Nikhil Hira	√	√	√	√	√	√	100%
M Soundararajan	√	√	√	√	√	√	100%
Dr Alice N Koigi	√	√	√	√	√	√	100%
Kihara Maina (resigned February 2023)	√	n/a	n/a	n/a	n/a	n/a	100%
Gul Khan (appointed February 2023)	n/a	√	√	√	√	√	100%
Edward M Wambugu	√	√	√	√	√	√	100%
Alan J Dodd	√	√	√	√	√	√	100%

√ Attended
X Not Attended
N/A Either resigned or not yet appointed to Board

Where a director did not attend a Board or Board Committee meeting, an acceptable apology had been received by the Chairman well in advance of the scheduled meeting.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

BOARD EVALUATION

The performance of the Board, Board committees and individual directors is evaluated annually with the process being reviewed and refined periodically. The results of the evaluation for FY2023 were collated confidentially by the Company Secretary and reviewed by the Chairman, the Board Committees and the Board.

The review and evaluation includes an assessment of the functioning of the Board and Board committees as collective bodies, as well as the performance of the Chairperson, individual directors peer-to-peer assessment, and Company Secretary. The evaluation also includes a self-assessment by independent directors on their ongoing independence based on given criteria. The Board then reviews the output from the self-assessment to determine whether the independent directors can still be considered independent. The feedback from the board evaluation is used to identify areas of Board improvement and performance enhancement. These are tracked throughout the year to closure through the Board Nomination & Remuneration Committee.

MANAGEMENT COMMITTEES

Tabulated below are Management Committees, their composition and membership, functions and the frequency of meetings

	Executive Committee	Management Committee	Assets & Liabilities Committee	Credit Risk Management Committee	Business Review Meetings	Risk & Compliance Committee
Chairman	CEO	CEO	CEO	Group Executive Director	CEO	CEO
Members	• GED, CEO • Group Head, Business Development • Executive General Manager, Business Support • Executive General Managers (Finance, Risk, Treasury, Strategy, Credit, Marketing, Corporate Banking and Personal & Business Banking, Corporate Advisory) • Invitees • Deputy General Manager Internal Audit • Senior Manager, Corporate Advisory (Secretary)	• GED, CEO, • Group Head, Business Development • Executive General Manager, Business Support • All Executive General Managers • Deputy General Managers (Internal Audit, Premium and Personal Banking) • Senior Manager, Corporate Advisory (Secretary)	• GED, CEO, • Group Head, Business Development • Executive General Managers (Finance, Risk, Treasury, Risk) • Manager, Middle Office (Market Risk) • Assistant General Manager Middle Office (Secretary)	• GED, CEO • Group Head, Business Development • Executive General Managers (Credit, Risk) • Head - Debt Recovery • Deputy General Manager Credit (Secretary)	• Segment Heads • Product Heads • Operations & Support	• GED, CEO • Group Head, Business Development • executive General Managers (Risk, Finance, ICT, Credit, HR, Treasury, Operations) • Operational Risk • Head of Legal • Chief Information Security Officer • Compliance • Invitees • Group Internal Audit • Kenya Internal Audit
Frequency of meetings	Monthly	Quarterly	Monthly	Fortnightly	Weekly	Monthly

STATEMENT OF CORPORATE GOVERNANCE (Continued)

MANAGEMENT COMMITTEES - (CONTINUED)

	Executive Committee	Management Committee	Assets & Liabilities Committee	Credit Risk Management Committee	Business Review Meetings	Risk & Compliance Committee
Main functions	• The Executive Committee is to drive and oversee effective and efficient business performance, in line with the agreed Corporate Objectives and Budget. • The EXCO will focus on business performance related issues and largely incorporate the business development team. • General Manager Finance and General Manager Risk are part of this session to specifically provide required inputs from a business support perspective.	• The Management Committees is to review the Bank's non-financial corporate objectives, progress of special projects and identification of risks or opportunities. • The Management Committee will focus on the business support function and provide a platform for reviewing of new products, initiatives and ideas and developments in the banking industry. • Regularly assess impact of changes in regulations/legislation.	• Treasury Market Risk and Middle Office Management. • Asset and Liability Management. • Interest Rate Risk Management. • Treasury Credit Risk Management or Counter Party and Settlements Risk Management. • Funding Risk Management. • Liquidity Risk Management. • Capital Risk Management and the Internal Capital Assessment Process (ICAAP). • Product Pricing. • Currency Risk Management.	• Implement Credit Policy and Credit Risk Management Policy. • Reviews Credit Proposals in line with Policy and CBK Guidelines. • Review non performing accounts. • Consider and approve new asset-based products. • Control and follow-up on credit-related matters. • Regularly report to Board Credit Committee.	• Ensure a culture of the enterprise risk and integrate risk management into the organisation's goals. • Communicate internally matters relating to risk governance and oversight. • Review and approve the risk management infrastructure. • Review and evaluate the Bank's policies and procedures with respect to risk assessment and risk management. • Guide and support development of the Enterprise Risk Management framework. • Monitor the Bank's risk profile and potential exposure to various risk types. • Present to the BRC a report summarising the committee's review of the Bank's risk assessment.	• Ensure a culture of the enterprise risk and integrate risk management into the organisation's goals. • Communicate internally matters relating to risk governance and oversight. • Review and approve the risk management infrastructure. • Review and evaluate the Bank's policies and procedures with respect to risk assessment and risk management. • Guide and support development of the Enterprise Risk Management framework. • Monitor the Bank's risk profile and potential exposure to various risk types. • Present to the BRC a report summarising the committee's review of the Bank's risk assessment.

	Making Banking Great Steering Committee	Human Resources Committee	Space Committee	Management Procurement Committee (MPC)	IT Steering Committee
Chairman	Executive General Manger-Digital Business	Chief Executive Officer (CEO)	Chief Executive Officer (CEO)	Group Executive Director (GED)	CEO
Members	• Independent Director • Group Executive General Managers (Strategy, ICT, Alternate Banking Channels) • Group Head - Transactional Banking	• GED, CEO • Group Head, Business Development • Group Executive General Manager HR • Assistant General Manager HR (Secretary)	• GED, CEO • Group Head, Business Development • Executive General Managers (Strategy and Operations) • Senior Manager Premises (Secretary)	• GED • CEO • Group CFO	• Group CIO • Group CISO • Group CFO • Group CRO • Executive General Manager-Digital Business • Executive General Manager - Business Banking • Executive General Manager-Business Support • Head – Projects • Head-ICT Governance & Assurance (Secretary) • Compliance
Frequency of meetings	Once every 6 weeks	Once every 2 months	Ad hoc	Ad hoc	Six times per annum

STATEMENT OF CORPORATE GOVERNANCE (Continued)

MANAGEMENT COMMITTEES - (CONTINUED)

	Making Banking Great Steering Committee	Human Resources Committee	Space Committee	Management Procurement Committee (MPC)	IT Steering Committee
Main Functions	• Review and recommend to the Board through the Group EXCO the direction of the Digital Strategy. • Review and approve digital project implementation. • Review and approve expected project deliverables, including commercials linked to the business case. • Review and approve commitments to external entities. • Reviews work plans for prioritisation aligned to the digital strategy and delegates projects to iCube.	• Review HR Strategy and ensure implementation to comply with all HR related standards, laws and regulations. • Periodically review the effectiveness and alignment of the Bank's Human resources. policies to business needs. • Review and recommend the appointment of and compensation (including incentive bonus, benefits) for the staff team. • Review the competencies of existing Senior Management resources and ensure that competent pipeline is available for succession to critical positions. • Oversee staff alignment with agreed I&M Group priorities. • Review and monitor the grievance resolution and discipline handling process of the Bank. • Update Board on HR matters.	• To determine the space requirements for the Bank and monitor implementation through the premises department	• MPC will assist the BPC in fulfilling its responsibilities by reviewing and approving procurement proposals for the Bank within its limits as defined in the Delegated Authority limits and guidelines as revised from time to time	• To improve alignment between ICT and Business Strategy in ICT Strategies, Investments, ICT Projects, ICT Risk management, Service Management & Data Governance • Evaluating and monitoring the governance of ICT Product Pricing. • Oversee the implementation of the Digital Strategy and the ICT Strategy • Holistic review of the ICT capacity, systems architecture & external service providers • Monitor the progress and performance of ICT projects • Review and recommend to the Board Risk Committee appropriate ICT policies, standards, and guidelines

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Board of Directors

Daniel Ndonye
Independant Chairman
w.e.f July 2023

Suresh B R Shah
Non-Executive Director

Sarit S. Raja Shah
Group Executive Director

Gul Khan
Chief Executive Officer
w.e.f February 2023

Dr. Nyambura Koigi
Independent Director

M. Soundararajan
Independent Director

Nikhil Hira
Independent Director

Muchemi Wambugu
Independent Director

Alan James Dodd
Independent Director

Phyllis Wakiaga
Independent Director
w.e.f January 2024

Sachit Shah
Non-Executive Director

Stella Gacharia Kariuki
Company Secretary

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Senior Management

Gul Khan
Chief Executive Officer

AV Chavda
Director
Credit

Amit Budhdev
Group Executive GM
Finance
Resigned Dec 2023

LA Sivaramakrishan
Group Director
Business Development

Ruma Shah
Group Executive GM
Audit

Zipporah Gitau
Group Executive GM
Risk & Compliance

Gauri Gupta
Group Executive GM
Corporate Advisory

Sandeep Sinha
Group Executive GM
Credit

Rohit Gupta
Group Executive GM
ICT
Resigned March 2024

Mwihaki Wachira
Group Executive GM
Marketing

Josephine Mwaniki
Group Executive GM
Human Resources
Resigned July 2024

Harish Thyagarajan
Group Executive GM
Treasury
Resigned 31 January 2024

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Senior Management

Kenneth Lukale
Group Head
Asset Liability Management (ALM)

Rocky Olonde
Group Head
Strategy & Transformation

Evans Odhiambo
Group Head
Products

Winnie Hunja
Executive GM
Corporate Banking

Shameer Patel
Executive GM
Personal & Business Banking

Joseph Njomo
Executive GM
Operations
Resigned June 2024

Michael Mwangi
Executive GM
Digital Business

Andrew Mwenje
Head
Internal Audit

STATEMENT OF CORPORATE GOVERNANCE (Continued)

RISK MANAGEMENT, INTERNAL CONTROLS & COMPLIANCE

The Bank has established an integrated and Enterprise Risk Management Framework in place to identify, assess, manage and report risks as well as risk adjusted returns on a consistent and reliable basis. The Bank faces various diverse and complex types of risks related to its business as a banking institution. The Risk Management Department manages these risks through a continuous and on-going process of effective management of risks.

Risks are evaluated in an unbiased way. The Bank consciously takes the appropriate level of risks and manages these risks effectively to capitalise on related opportunities. Risk taking is core to I&M's innovation capacity and ultimately its entrepreneurial success.

I&M's approach to Risk Management is characterised through a strong risk oversight at the Board level and a robust risk management culture at all levels across all functions. Such an approach supports and facilitates I&M's decision-making process. This not only ensures that the risk reward trade-off is optimised but also that risks assumed are within the overall Risk Appetite and Risk Tolerance levels as laid down by the Board in the various Policy Documents.

The Bank has recognised ESG (Environment, Social, Governance) as a key focus area with the growing emphasis on climate change. The Bank's risk management framework has been aligned to ensure formulation and implementation of an ESG framework to focus on this risk in line with international best practice and the guidance on climate-related risk management issued by the Central Bank of Kenya.

I&M's Risk Management Process is guided by the following principles:

- Its Risk Appetite & Risk Tolerance Levels
- An Independent Audit, Compliance & Quality Assurance Department
- Zero Tolerance for violations
- A Policy of "No Surprises"
- Protection of Reputation
- Enhanced Stakeholder Satisfaction

The Bank is committed to follow best practices in its Risk Management and uses the Committee of Sponsoring Organisations of the Treadway Commission "COSO" framework as a reference and adopts compatible processes and terminology.

COMPLIANCE

The Board ensures that laws, rules and regulations, codes and standards applicable to the Bank are identified, documented and observed. The Bank's independent Compliance function continuously monitors the Bank's compliance with applicable laws, rules and regulations, codes and standards and provides assurance in this respect to the Board on a quarterly basis.

All policies and procedures are tailored to ensure that the Bank's processes are fully compliant with all relevant laws and regulations. Additionally, the Board receives a report at each of its scheduled meetings on changes to the legislation and regulatory framework and evaluates its impact in addition to ensuring that the Bank puts in place the appropriate processes to ensure compliance from the effective date.

RISK BASED INTERNAL AUDIT & ASSURANCE

While the Board is responsible for the overall risk management and internal control systems, oversight of the Bank's risk management process has been delegated to the Board Audit and Board Risk Committees. This is undertaken through an independent Internal Audit function established within the Bank.

The Board and Management set out the mandate for Internal Audit, defining its purpose, authority and responsibilities. The Board ensures that the Head of Internal Audit department is not responsible for any other function in the entity and reports directly to the Board Audit Committee.

The Internal Audit function provides an independent assurance to the Board and Management that:

- The internal control system in place is performing effectively and is adequate to mitigate risks consistent with the risk appetite of the Bank; and
- The organisation goals are met and governance processes are effective and efficient.

EXTERNAL AUDITORS

The Board has put in place mechanisms to ensure that external auditors:

- Maintain a high standard of auditing.
- Have complete independence.
- Have no pecuniary relationship with the auditee entity or a related party.
- Bring to the attention of management and supervisor any matters that require urgent action.

Audit and other fees paid to the external auditors during the year have been separately disclosed under Note 13.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Ethics & Social Responsibility

CODE OF ETHICS

The Bank has in place a Code of Conduct and Code of Ethics that binds all its Directors and staff to ensure that business is carried out in an ethical, fair and transparent manner, in keeping with the local regulations and international best practices.

The Code of Ethics encompasses, inter alia, matters touching upon safety and health, environment, compliance with laws and regulations, confidentiality of customer information, financial integrity and relationships with external parties. This Code of Ethics is reviewed periodically and amendments are incorporated if necessary.

CONFLICTS OF INTEREST

The Board has in place a policy to provide guidance on what constitutes a conflict of interest. The Board expects its members, both individually and collectively, to act ethically and in a manner consistent with the values of the business. Each director is obligated to, as far as practically possible, minimise the possibility of any conflict of interest with the Bank or the Group by restricting involvement in other businesses that would be likely to lead to a conflict of interest. Where conflicts of interest do arise, Directors excuse themselves from the relevant discussions and do not exercise their right to vote in respect of such matters. The Conflicts of Interest policy is also extended on a similar basis to all senior management and employee who can influence decision making processes.

INSIDER TRADING & RELATED PARTY TRANSACTIONS

The Bank has adopted the Group-wide Insider Trading Policy that prohibits Directors, staff of all Group entities and contractors who have or may have access to material non-public information regarding the Company from:

- Market Manipulations - artificially inflating or deflating the price of a security or otherwise influencing the behaviour of the market for personal gain;
- False Trading and Market Rigging – dissemination of favourable or unfavourable information likely to induce the subscription, sale or purchase of shares by other people, or raise, lower or maintain the market price of shares;
- Fraudulently inducing trading in securities;
- Front Running - entering into a securities trade to capitalise on advance, non-public knowledge of a large ("block") pending transaction that will influence the price of the underlying security;
- Obtaining gain by fraud; and,
- Communicating unpublished price-sensitive information to other people.

The policy also prohibits anyone having Inside Information relating to the Group from buying or selling the entity's securities, except within certain stipulated open periods.

Insiders handling price sensitive information are subjected to preclearance restrictions which requires them to declare their intention to purchase or sell Company's securities before entering into a transaction.

The Group's Board Audit and Risk Management Committee (BARMC) has oversight on insider trading and is made aware of insider trades as well as breach/(es) of the Insider Trading Policy through quarterly returns.

Through the Group, the Bank has also adopted a related party policy that outlines how to deal with related parties in a transparent manner and at arm's length on related party transactions. Related parties, whether body corporate or natural persons, fall into two main groups:

- those that are related to the Group because of ownership interest; and
- those that are related otherwise, such as directors and senior officers who may also have some ownership interest in the Group.

In line with the above-mentioned guideline, the Board has adopted a policy which sets out the rules governing the identification of related parties, the terms and conditions applicable to transactions entered into with them. All related party dealings/transactions are disclosed under Note 39.

WHISTLE BLOWING POLICY

The Bank has in put in place a Whistle blowing policy and appropriate mechanisms to demonstrate its commitment to the highest standards of openness, probity and accountability. The scope of the policy includes the Group and all its subsidiaries, Directors, staff, contractors, agents, vendors, sponsors, customers, and shareholders of the Group as well as the general public. The policy is hosted on the Bank's website and outlines the mechanisms that stakeholders can employ to voice concerns in a responsible and effective manner. The policy is designed to encourage and facilitate raising concerns at a high level and to disclose information which the individual believes shows malpractice or impropriety. The policy aims to:

- Encourage stakeholders such as employees to feel confident in raising their apprehensions and to question any act that may raise concerns about practice that may bring disrepute to the Group and or cause financial or other loss to the Bank and/or Group and or any malicious act that may adversely affect a staff member.
- Provide avenues to raise those concerns and receive feedback on any action taken;

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Ethics & Social Responsibility - (Continued)

WHISTLE BLOWING POLICY - (CONTINUED)

- Provide reassurance that individuals will be protected from possible reprisals or victimisation if they have reasonable belief that they have made any disclosure in good faith;
- Minimise the Bank and Group's exposure to the damage that can occur when employees circumvent internal mechanisms; and,
- Let stakeholders know the Bank and the Group is serious about adherence to the Code of Conduct and the various policies in place.

The Whistleblowing reports are regularly reviewed and discussed by the Board Nomination and Remuneration Committee.

SUSTAINABILITY & CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Bank is very conscious of its responsibility towards the Community and those around it. It is in this endeavour that the Bank, through I&M Foundation, has put in place guidelines that support the discharge of its Corporate Social Responsibility mandate. The Bank has continued to deepen its relationship with various stakeholders while providing opportunities to its employees to participate in various I&M Foundation CSR activities.

I&M Bank's CSR activities through the I&M Foundation are aimed at making sustainable difference under four key social pillars listed below:

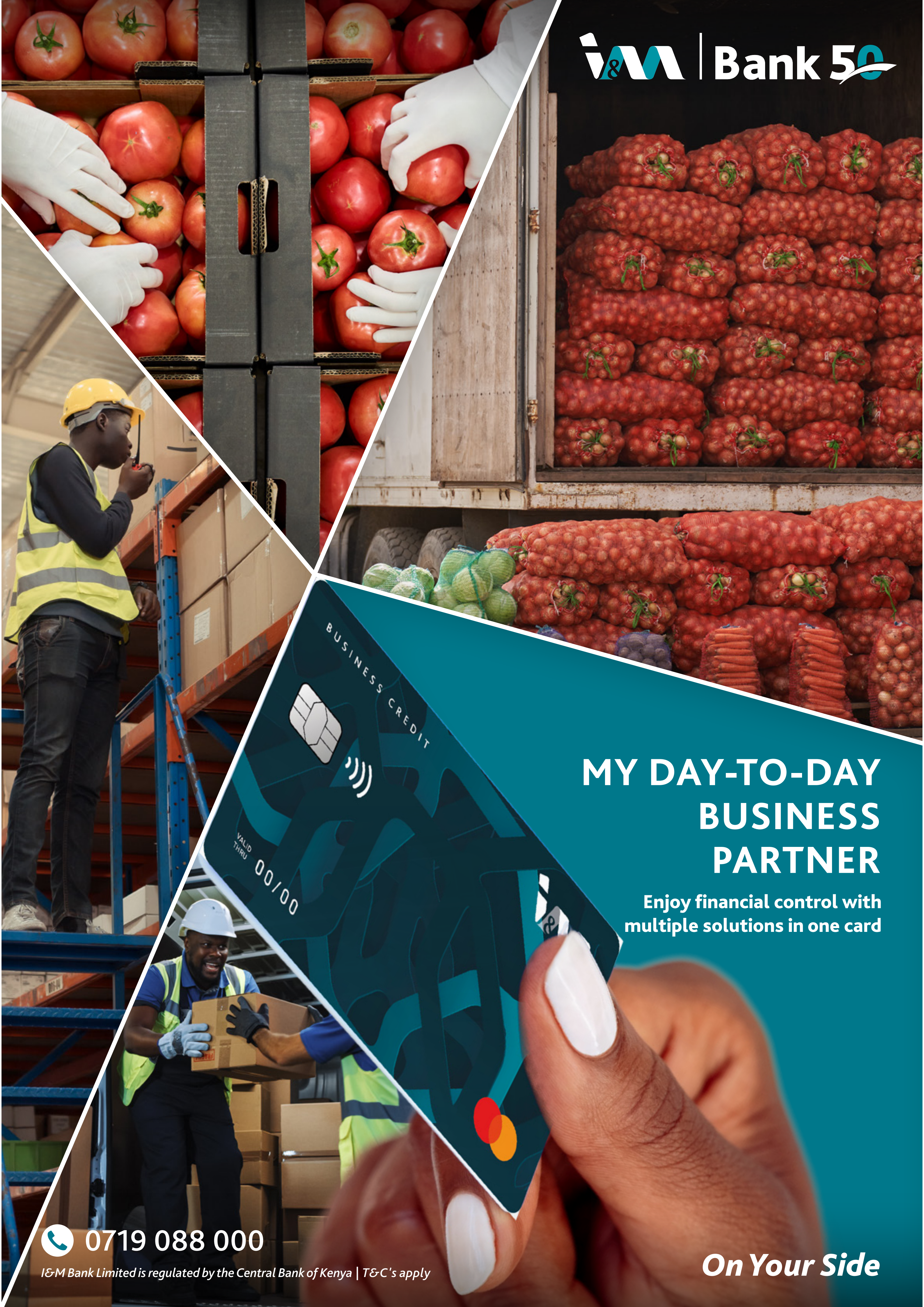
- Environmental conservation;
- Education and skills development;
- Economic empowerment; and,
- Enabling giving.

Additional details on the activities undertaken during the year have been provided in the Group's 2023 Annual Integrated Report.

STAKEHOLDER MANAGEMENT

I&M recognises and appreciates that engagement with, and active cooperation of its stakeholders, is essential for the Bank and Group's strong business performance on a sustainable basis, as well as to achieve and maintain public trust and confidence. The Bank is guided by the Group's stakeholder engagement policy which is founded on the principles of transparency, active listening, and equitable treatment that favours a consultative and collaborative engagement with all stakeholders.

Stakeholder engagement is decentralised within I&M. All I&M employees are accountable for managing relationships and meeting expectations of internal and external stakeholders within their areas of responsibility. Should a stakeholder not be satisfied with the service or assistance that they receive from their I&M point of contact, there are a number of opportunities that allow for anonymity (if desired) as well as independence to ensure that concerns raised by stakeholders are heard. These include our client call centre that is the first point of call for all clients' requests and the section "Contact us" on the Bank's corporate website. Concerns raised by stakeholders are monitored regularly for compliance by the Bank's Risk and Compliance Teams and any escalation would be made to the Board Risk Committee where necessary.


I&M Bank 50
BUSINESS CREDIT
VALID THRU 00/00
MY DAY-TO-DAY BUSINESS PARTNER
Enjoy financial control with multiple solutions in one card
0719 088 000
I&M Bank Limited is regulated by the Central Bank of Kenya | T&C's apply
On Your Side

Business

On Your Side

Our Business

Overview

In 2023, the Kenyan economy faced myriad shocks, including elevated inflation, restrictive monetary policy, and sustained government appetite for local debt. The Kenyan shilling depreciated by approximately 30% against the US dollar and is expected to continue depreciating, albeit at a slower pace due to the Central Bank's efforts. All this notwithstanding, the subsidiary's financial performance reflects resilience with a significant increase in operating income, which increased by 14% compared to the prior year. The Profit before Tax closed at KShs 12.1 Billion, at par with the 2022 performance, having been impacted by an increase in provisions from KShs 4.1 Billion in 2022 to KShs 5.3 Billion in 2023. The Balance sheet closed at KShs 406 Billion on the back of growth in loans and advances. The Bank has had significant milestones in customer growth and brand relevance, which has been supported by the initiatives to eliminate all Bank to mobile charges for retail customers and intensified marketing activities. These initiatives opened up the Bank to a segment with growth opportunities, resulting in 27% growth in its number of customers and an increase in CASA deposits representing 40% of total deposits from 34% in 2022. At the same time, the brand recorded the highest growth in the spontaneous awareness score between 2020 and 2023. Going into 2024, the Bank shall have a strong focus on accelerating delivery through ecosystems to drive the number of lives impacted and cost discipline aimed at creating investment capacity.

Our Offerings

Commercial Banking Services- Retail, SME, Corporate & Institutional

Bancassurance

Custody and Investment Services

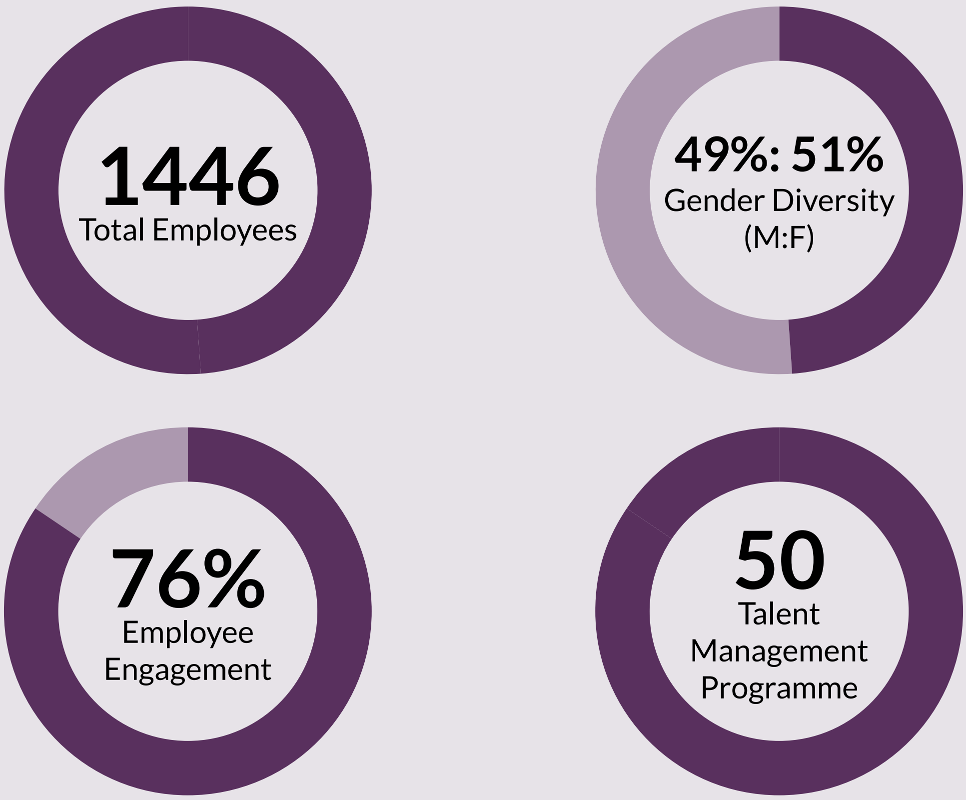
Financial Advisory Services

Wealth Management Services

Real Estate Investments

Commercial banking represents the largest portion of the Group's assets with presence throughout the East Africa region. The products and services are segmented to meet the needs of each customer base and which in turn stems from our strategic goals of being the best bank for our customers. This now includes increased convenience through the digitisation of our services.

Our People



Our Legacy of Giving

I&M Foundation remains key as the Bank's execution arm in delivering shared value in the society. Through the Foundation, we understand sustainability as fulfilling the needs of current generations without comprising the needs of future generations, while ensuring a balance between economic growth and viability, environmental protection and care, and equitable social wellbeing. The Group remains committed to delivering on the Foundation's shared value agenda. In 2023, the Bank contributed KShs 245 Million (2022: KShs 212 Million). Over the last 5 years, this contribution cumulatively amounts to KShs 1.1 Billion.

Pillar 1 – Environmental Pillar (SDG 7,3,15)

"Where we preserve, protect, restore the environment and promote sustainable use of ecosystems"

We continued to work with several local partners to implement our strategic objectives under the environmental pillar. Our objective remains to inculcate a culture of environmental conservation and sustainable management of resources.

Kenya Community Development Foundation (KCDF)

Miti Alliance

Kenya Wildlife Services

Nkoilale Community Development Foundation (NCDF)

Nguzo Africa

A Rocha Kenya

Malindi Education and Development Foundation (MEDA-F)

Pillar 1 – Environmental Pillar (SDG 7,3,15) (Continued)

Environmental Pillar

How we are achieving impact

Growing trees in protective environments including institutions compounds, forests and fenced community land

Training young learners on the importance of trees, nurturing techniques and role in environment conservation

Transitioning communities to clean energy by providing energy saving devices

Our Local Partners

KCDF
Miti Alliance
KWS
Nkoilale Community Develpment Foundation
Nguzo Africa
A Rocha Kenya
Malindi Education & Development Foundation (MEDA-F)

2023 Achievement

- Equipping 167 institutions (64,537 learners) with environmental conservation
- 185,880 trees planted (67% survival rate)
- 209 Energy saving devices provided to communities and institutions
- 9,402 HH impacted
- Supported the construction of 5.5mn liters of dam at Nairobi National Park

3 Year Impact

- > 430,000 trees since 2020 with an average 78% survival rate
- Tree nurseries set up with >100,000 seedlings in three counties (Narok, Kilifi, Malindi)
- Positive impact on communities towards transitioning them to clean energy
- Positive impact on wildlife through extending our support to KWS

Ongoing Environmental Conservation training at Kanjeru Primary School

I&M Bank team that planted trees in Kereita Forest Reserve during the National Tree Growing Day

The Head of I&M Foundation hands over a water tank to Riu Nderi Primary School, through the Board Chairman

Construction of Ololo Dam (Lower section) Nairobi National Park

Pillar 2 – Education and Skills Development (SDG 4)

“Where we enhance education outcomes and value-addition life skills that ensures inclusive and equitable quality education”

Our education pillar is focused on providing the best education opportunities to students who may have challenges to do so.

Strathmore University

Palmhouse Foundation

St. Ann Suresh Raja Girls’ High School

Amara Trust

Moringa School

Kenya Wildlife Trust

Oshwal College

Alliance High School - Endowment Fund Trust

How we are achieving impact

Providing scholarships to bright, deserving students who have challenges

I&M Staff facilitating mentorship to students

Training students to pay forward

Introducing sustainable energy solutions and environmental conservation in the learning institutions

Our Local Partners

Strathmore University

PalmHouse Foundation

St Anns Suresh Raja Girls High School

Amara Trust

Moringa School

Kenya Wildlife Trust

Oshwal College

Alliance High Scholl Endowment Fund Trust

Education Pillar

2023 Achievement

- 243 students on scholarship in 2023 (Secondary & Tertiary)
- 100% of 24 KCSE scholars qualified for University Placements
- 25 Students supported in Moringa Access Program

3 Year Impact

- 360 scholarships have been provided (secondary and tertiary)
- School bus and solar water heating for St Anns

I&M Foundation convening for Strathmore University scholarship beneficiaries

I&M Foundation interaction with students during the Palmhouse Foundation mentorship session.

Pillar 3 – Economic Empowerment (SDG 1,8)

“Where we promote sustainable economic growth and transform livelihoods”

Our local partners

The Maa Trust

Jonathan Jackson Foundation

Economic Empowerment

How we are achieving impact

Promoting sustainable economic empowerment to communities to transform livelihoods

Supporting the empowerment of Maasai women through the Maa Beadwork Social Enterprise

Creating income-generating opportunities for the most vulnerable segments of unemployed youth and women - especially those who are Not in Employment, Education or Training (NEET)

Our Local Partners

The MAA Trust

Jonathan Jackson Foundation

2023 Achievement

- 190 Beadwork artisans graduated to the top skills
- Indirect benefit to 9.100 households
- 37 jobs, 15 businesses launched and
- 199 direct beneficiaries gained from capital goods distribution

3 Year Impact

- 579 women in the Masai Mara Region
- Indirect benefit to 9.100 households

Maa Trust Women recieving payments at Olare Orok Village

Women Economic Empowerment in the Maasai Mara

Maa Beadwork Products at Mahali Mzuri Gift Shop

Jenga Bizna Mtaani Program – Distribution of a P.A Sound system to empower the Cultural Pioneer Eagles group at the Humama Grounds in Kayole

Pillar 4 – Enabling Giving (SDG 17)

"Where we strengthen partnership for sustainable community development"

Our local partners

KAMILI ORGANISATION
Supporting those with mental health issues

Kamili Organisation

Enabling Giving

How we are achieving impact

Championing community philanthropy and catalyzing a culture of local giving that promotes sustainability

Our Local Partners

Kamili Organisation

2023 Achievement

- Supporting a dedicated lead nurse in Nairobi who offers clinical assessment, treatment and support to more than 10,000 mentally challenged patients and care givers across the country
- I&M Bank staff participated annual CSR activity that saw the staff enrich 8 children's homes and rehabilitation centers across the country, plant trees in three locations across the country, and facilitate two free medical camps in Nairobi and the coast.
- Organized a medical camp in Nairobi that benefited 1,358 individuals, with 251 of them being children

3 Year Impact

- Impact on 100 families in the village (922 children and 94 senior citizens) via Nyumbani Village.
- 80% reduction in diesel consumption & fossil fuel creating a direct positive impact on the environment and health of the residents.
- KShs 5 Million provided towards food relief packages to support
- humanitarian cause in Northern Kenya impacting 500 households (5000 beneficiaries)
- Helping more than 10,000 mentally challenged patients and care givers across the country

Free medical camp hosted at Muthurwa Primary School, Gikomba, Nairobi

Bringing joy to Tunyai Children's Center for orphaned, abandoned and vulnerable children, located in Tharaka Nithi.

Encouraging the children at Precious Kids Centre based at Wamuini center in Kitale

Our Accolades

- 7th Edition Connected Banking Summit, Overall Winner, Excellence in Customer Experience
- MSK Awards, Overall Winner, New Product Launch of the Year, Laaargest Unsecured Personal Loan
- MSK Awards, 2nd Runner Up, Marketer of the Year, Mwihaki Wachira Group GM, Marketing & Communication
- Global Banking & Finance Awards, Overall Winner, Best Digital KYC / On-boarding Initiative Kenya
- Finnovex Awards, Excellence in Mobile Banking Award

Who We Serve

Although I&M Bank is traditionally known for its large customer base of high-net-worth customers and large corporate clients, the Bank has also been recognised for its services to small and medium-sized enterprises including many that have grown with the Bank.

Our Golf Sponsorships

I&M Bank in the year under review sponsored a three-tournament series dubbed the I&M Bank Corporate Golf Day at three clubs in as many Counties across the country. The series culminated in a colourful event at the Muthaiga Golf Club on Saturday 9th December and was preceded by one at Limuru Country Club and Nyali Golf Club on October 21st and December 2nd, respectively.

The series was a spectacular showcase of skill, camaraderie, and the enduring spirit of the game. It gave the Bank an opportunity to connect and interact with some of the most talented golfers in the country.

The tournaments attracted over golfers form across the country, including our very own senior officials Muchemi Wambugu, MBS. (Independent Non-Executive Director), Kihara Maina (Regional CEO), Gul Khan (Kenya CEO), Shameer Patel (General Manager, personal and Business Banking) among others.

Kenya Overview 2023

Macro-economic Environment

The Kenyan economy experienced several challenges in 2023, continuing from the previous year as a result of electioneering, increase in supply side shocks, and significant depreciation of the Kenya shilling. Despite this, the economy is expected to grow by 5.6% due to robust activity in the hospitality sector, real estate, information and communication, wholesale and trade. Inflation stood at 6.6% year on year in December 2023.

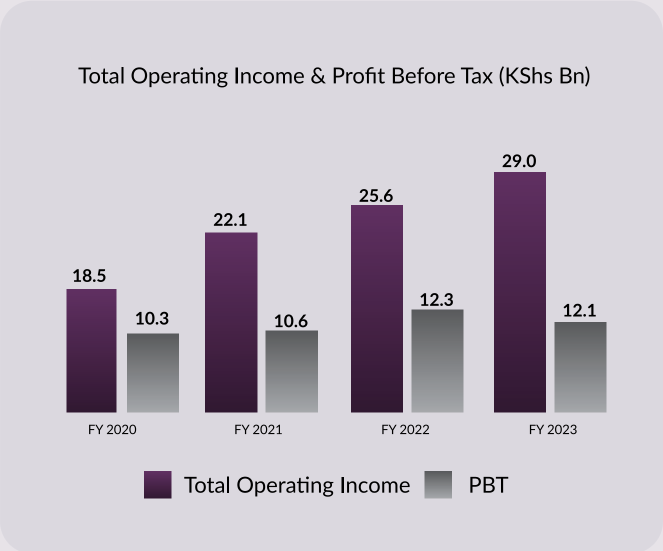
The Kenya shilling depreciated by close to 30% in 2023. The pressures on the economy led to tightening of the monetary policy leading to a significant higher interest rate environment.

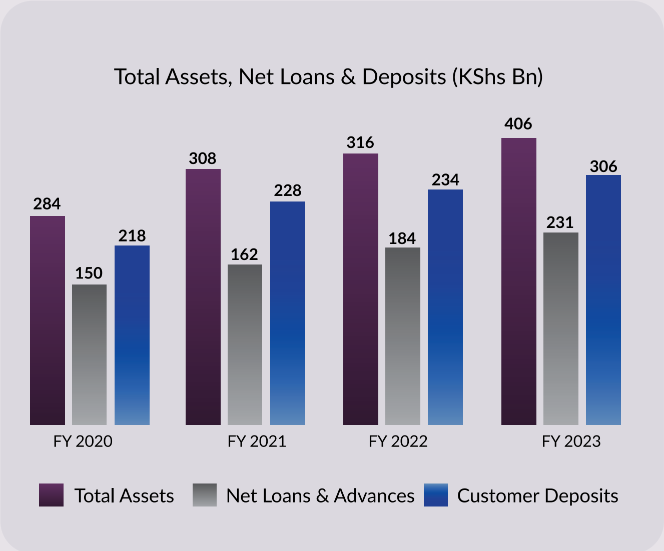
Financial Performance

During 2023, the Kenyan subsidiary continued making strides in the retail segment. Understanding the challenges being faced in the economy, the Bank waived the "Bank to wallet" charges to support the reduced incomes of the population. The introduction of the largest unsecured loan was also one of its kind in the economy.

While these initiatives are still nascent, the Kenyan subsidiary continues performing well with operating income having increased by 14% year on year, driven by both net interest and non-interest income. Overall, over the last three years, income has grown by a CAGR of 16% despite the challenges faced in the economy. Operating expenses increased by 27% year on year on the back of continued investments in IT platforms, marketing as we invest in the brand and staff complement to prepare us for the next iteration of the strategy. As a result, despite the strong growth in income, Profit before Tax remained flat during the year due to the higher operating expenses and increased loan loss provisions.

During the year, the Bank saw Total Assets increase by a 29%, driven by a 26% increase in the Loans and Advances and 31% increase in the Deposit book. CASA ratio improved to 40% (2022:34%) on the back of focused efforts to increase the mix of low-cost deposits.





Key Ratios	2021	2022	2023
Gross NPL	11.4%	10.8%	11.7%
Net NPL	2.9%	2.6%	5.1%
Loan to Deposit Ratio	71%	79%	76%
Cost to Income Ratio	39%	36%	40%
Cost of Risk	1.8%	2.3%	2.6%
ROE	13.5%	18.3%	17.4%
ROA	2.4%	3.1%	2.7%

Outlook

The outlook for the Kenyan economy remains challenging, with the continued increase in inflation, depreciation of the currency (although there has been a significant appreciation since the beginning of March 2024) and the high interest rate environment. The tighter fiscal space also points to lower disposable income. The Bank intends to continue growing while being prudent in its approach.

Financials

On Your Side

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2023

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31st December 2023, which disclose the state of affairs of I&M Bank LIMITED ("the Bank" or "the Company") and the Group. The Group comprises I&M Bank LIMITED, I&M Bank (T) Limited, Tanzania and I&M Bancassurance Intermediary Limited.

1. Principal activities

The Bank and I & M Bank (T) Limited provide an extensive range of banking, financial and related services permitted under the Banking Act, Kenya and the Banking and Financial Institutions Act, 2006, Tanzania and are regulated by Central Bank of Kenya and Bank of Tanzania respectively. I&M Bancassurance Intermediary Limited provides insurance agency services as defined by the Insurance Act.

2. Results/business review

The Group and Company results for the year are as follows:

	Group		Company	
	2023	2022	2023	2022
	KShs '000	KShs'000	KShs '000	KShs '000
Profit before income tax	12,566,914	11,739,214	12,084,199	12,260,083
Income tax expense	(2,480,326)	(2,381,908)	(2,368,200)	(2,497,932)
Net profit for the year after tax	**10,086,588**	**9,357,306**	**9,715,999**	**9,762,151**

Group Profit before tax closed at KShs 12.6 billion; a 7% increase aided by net operating income which grew by KShs 4.5 billion against an increase in operating expenses by KShs 2.6 billion.

Company Profit before tax closed at KShs 12.1 billion; a 1% drop. Operating income recorded a 13% growth largely driven by growth in net interest income by 19%.

The principal risks and uncertainties facing the Group and Company as well as the risk management framework are outlined in Note 5 of the consolidated and separate financial statements.

3. Dividend

The directors recommend payment of a final dividend of KShs 135 per share amounting to KShs 4,050,000,000 for the year ended 31 December 2023 (2022 – KShs 6,300,000,000).

4. Directors

The Directors of the Company who served during the year and up to the date of this report are set out on page 5.

5. Relevant audit information

The Directors in office at the date of this report confirm that:

(i) There is no relevant audit information of which the Company's auditor is unaware; and
(ii) Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

3. Auditor

In accordance with section 719 of the Kenyan Companies Act, 2015 and Section 24 of the Banking Act (Cap 488), a resolution is to be proposed at the Annual General Meeting for the appointment of KPMG Kenya as the auditor of the Company.

4. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Directors held on 13 March 2024.

BY ORDER OF THE BOARD

STELLA W. GACHARIA
P. O. Box 101499 - 00101, NAIROBI
CERTIFIED PUBLIC SECRETARY
CPS. No. 3387

Stella W Gacharia
Secretary

Date: 13 March 2024.

Statement of Directors' Responsibilities

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of I&M Bank LIMITED (the "Bank" or "the Company") and its subsidiaries (together, "the Group") set out on pages 48 to 148 which comprise the consolidated and company statements of financial position as at 31st December 2023, and consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and company statements of cash flows for the year then ended, and the notes to the consolidated and company financial statements, including material accounting policies in conformity with IFRS Accounting as issued by the International Accounting Standards Board (IFRS Accounting Standards) and in the manner required by the Kenyan Companies Act, 2015.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of fairly financial statements in accordance with IFRS Accounting Standards and in the manner required by 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 misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and the Company as at the end of the financial year and of the profit or loss of the Group and the Company for that year. It also requires the Directors to ensure the Group and Company keeps proper accounting records which disclose with reasonable accuracy the financial position and profit or loss of the Group and the Company.

The Directors accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of annual financial statements, as well as adequate systems of internal financial control. The Directors are of the opinion that the financial statements give a true and fair view of the financial position and the profit or loss of the Group and the Company.

The Directors accept responsibility for the consolidated and separate financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with IFRS Accounting Standards in the manner required by the Kenyan Companies Act, 2015.

The Directors have made an assessment of the Company and Group ability to continue as a going concern and have no reason to believe the Group and Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the consolidated and separate financial statements

The consolidated and separate financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 13 March 2024.

Daniel Ndonye
Director

Nikhil Hira

Nikhil R Hira
Director

Gul Abbass Khan
Director

Date: 13 March 2024.

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612 00100 GPO
Nairobi, Kenya

Telephone +254-20-280600
Email info@kpmg.co.ke
Website www.kpmg.com/eastafrica

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF I&M Bank LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of I&M Bank LIMITED (the "Group" and "Company") as set out on pages 48 to 148, which comprise the consolidated and company statements of financial position as at 31 December 2023, and the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and company statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including material accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report. We are independent of the Group and the Company in accordance with International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Kenya, and we have fulfilled our other 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 information included in the *I&M Bank LIMITED Annual Report and Financial Statements for the year ended 31 December 2023,* but does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

KPMG

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF I&M Bank LIMITED (CONTINUED)

Report on the audit of the consolidated and separate financial statements (Continued)

Directors' responsibilities for the consolidated and separate financial statements

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

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 consolidated and separate financial statements.

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

— Identify and assess the risks of material misstatement of the consolidated and separate 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 Company's internal control.
— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
— Conclude on the appropriateness of 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.

KPMG

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF I&M Bank LIMITED (CONTINUED)

Report on the audit of the consolidated and separate financial statements (Continued)

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

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 consolidated financial statements. We are responsible for the direction, supervision and performance of the Group and Company audit. We remain solely responsible for our audit 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.

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015 we report to you solely based on our audit of the consolidated and separate financial statements, that in our opinion, the information in the report of the Directors on page 43 is consistent with the consolidated and separate financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Dr. Alexander Mbai Practicing certificate number - P/2172.

For and on behalf of:

KPMG Kenya
Certified Public Accountants
PO Box 40602 – 00100
Nairobi, Kenya

Date: 26 March 2024.

OUR FINANCIALS

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2023

Group	Note	2023	2022
		KShs'000	KShs'000
Interest income calculated using effective interest rate	7(a)	40,640,989	29,656,323
Interest expense	8(a)	(18,622,178)	(11,774,896)
Net interest income		**22,018,811**	**17,881,427**
Fee and commission income	9(a)	5,550,184	4,730,089
Fee and commission expense	9(a)	(421,639)	(253,588)
Net fee and commission income	9(a)	**5,128,545**	**4,476,501**
Revenue		**27,147,356**	**22,357,928**
Net trading income	10(a)	4,825,842	5,101,542
Other operating income	11(a)	265,023	268,726
Net operating income before change in expected credit losses and other credit impairment charges		**32,238,221**	**27,728,196**
Net impairment losses on financial assets	20(b)	(6,431,474)	(5,361,698)
Net operating income		**25,806,747**	**22,366,498**
Staff costs	12(a)	(5,297,317)	(4,660,311)
Premises and equipment costs	12(a)	(451,580)	(411,608)
General administrative expenses	12(a)	(5,580,819)	(3,927,122)
Depreciation and amortisation	12(a)	(1,910,117)	(1,628,243)
Operating expenses		**(13,239,833)**	**(10,627,284)**
Profit before income tax	13(a)	**12,566,914**	**11,739,214**
Income tax expense	14(a)(i)	(2,480,326)	(2,381,908)
Net profit for the year after tax		**10,086,588**	**9,357,306**

(Continued page 49)

The notes set out on page 60 to 148 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2023 (Continued)

Group	Note	2023	2022
		KShs'000	KShs'000
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Net change in fair value of FVOCI financial assets - Equity instruments	21	76,019	26,148
Deferred tax on fair value of FVOCI financial assets - Equity instruments	26	(22,806)	(7,844)
Items that are or may be reclassified to profit or loss:			
Net change in fair value of FVOCI financial assets- Debt instruments	21	(2,109,611)	(4,110,773)
Deferred tax on fair value of FVOCI financial assets - Debt instruments	26	749,212	1,286,093
Foreign currency translation differences		1,079,536	349,752
Total other comprehensive income for the year		**(227,650)**	**(2,456,624)**
Total comprehensive income for the year		**9,858,938**	**6,900,682**
Profit attributable to:			
Equity holders of the Company		10,027,469	9,469,652
Non-controlling interest	23	59,119	(112,346)
		10,086,588	**9,357,306**
Comprehensive income attributable to:			
Equity holders of the Company		9,605,099	6,935,399
Non-controlling interest		253,839	(34,717)
		9,858,938	**6,900,682**
Basic and diluted earnings per share - (KShs)	15	**334.25**	**315.66**

The notes set out on pages 60 to 148 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Company statement of profit or loss and other comprehensive income

For the year ended 31 December 2023

Company	Note	2023	2022
		KShs'000	KShs'000
Interest income calculated using effective interest rate	7	36,437,339	26,847,186
Interest expense	8	(17,164,951)	(10,608,939)
Net interest income		**19,272,388**	**16,238,247**
Fee and commission income	9	4,924,577	4,102,608
Fee and commission expense	9	(419,205)	(250,997)
Net fee and commission income	9	**4,505,372**	**3,851,611**
Revenue		**23,777,760**	**20,089,858**
Net trading income	10	4,430,189	4,882,080
Other operating income	11	291,512	268,954
Dividend income	11	117,000	87,387
Net operating income before change in expected credit losses and other credit impairment charges		**28,616,461**	**25,328,279**
Net impairment losses on financial assets	20(b)	(5,322,102)	(4,060,796)
Net operating income		**23,294,359**	**21,267,483**
Staff costs	12	(4,431,264)	(3,906,936)
Premises and equipment costs	12	(398,620)	(359,564)
General administrative expenses	12	(4,666,185)	(3,325,759)
Depreciation and amortisation	12	(1,714,091)	(1,415,141)
Operating expenses		**(11,210,160)**	**(9,007,400)**
Profit before income tax	13	**12,084,199**	**12,260,083**
Income tax expense	14(a)	(2,368,200)	(2,497,932)
Net profit for the year after tax		**9,715,999**	**9,762,151**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Net change in fair value of FVOCI financial assets - Equity instruments	21	76,019	26,148
Deferred tax on fair value of FVOCI financial assets - Equity instruments	26	(22,806)	(7,844)
Items that are or may be reclassified to profit or loss:			
Net change in fair value of FVOCI financial assets	21	(2,097,090)	(4,495,366)
Deferred tax on fair value of FVOCI financial assets	26	749,212	1,401,442
Total other comprehensive income for the year		**(1,294,665)**	**(3,075,620)**
Total comprehensive income for the year		**8,421,334**	**6,686,531**
Basic and diluted earnings per share - (KShs)	15	**323.87**	**325.41**

The notes set out on page 60 to 148 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Consolidated statement of financial position

For the year ended 31 December 2023

Group	Note	2023	2022
		KShs'000	KShs'000
ASSETS			
Cash and balances with central banks	17	24,124,036	15,966,304
Items in the course of collection	18	343,983	433,996
Loans and advances to banks	19	44,341,612	10,981,678
Loans and advances to customers	20(a)	259,374,033	203,355,150
Financial assets at fair value through profit or loss (FVTPL)	21(a)	738,185	15,080,925
Financial assets measured at fair value through other comprehensive income (FVOCI)	21(b)	56,010,179	50,034,300
Other financial assets at amortised cost	21(c)	36,407,474	29,115,880
Assets held for sale	22	307,501	748,849
Due from group companies	27(a)	2,947,483	782,325
Tax recoverable	14(b)	605,555	353,305
Other assets	28	3,959,856	3,599,744
Property and equipment	24	4,214,815	3,276,378
Intangible assets - goodwill	25(a)	903,445	799,365
Intangible assets - others	25(b)	2,633,778	2,436,863
Deferred tax asset	26	9,795,614	7,708,969
TOTAL ASSETS		**446,707,549**	**344,674,031**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	29	21,629,821	11,182,714
Deposits from customers	30	341,154,590	257,841,512
Due to group companies	27(b)	4,699,449	1,732,442
Tax payable	14(b)	-	5,727
Other liabilities	31	5,824,471	5,444,455
Long term borrowings	32	204,921	1,563,943
Subordinated debt	33	12,532,190	9,800,069
		386,045,442	**287,570,862**
Shareholders' equity			
Share capital	34(a)	3,000,000	3,000,000
Share premium	34(b)	5,531,267	5,531,267
Retained earnings		44,109,715	44,624,663
Statutory credit risk reserve	34(c)	10,204,249	6,109,112
Fair value reserve	34(e)	(4,662,969)	(3,356,167)
Translation reserve	34(d)	1,069,809	185,377
Equity attributable to Owners of the Company		**59,252,071**	**56,094,252**
Non-controlling interest	23	1,410,036	1,008,917
TOTAL SHAREHOLDERS' EQUITY		**60,662,107**	**57,103,169**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**446,707,549**	**344,674,031**

The consolidated and separate financial statements set out on pages 48 to 148 were approved and authorised for issue by the Board of Directors on 13 March 2024 and were signed on its behalf by:

Nikhil Hira

Daniel Ndonye
Director

Nikhil R Hira
Director

Gul Abbass Khan
Director

Stella W Gacharia
Secretary

STELLA W. GACHARIA
P. O. Box 101499 - 00101, NAIROBI
CERTIFIED PUBLIC SECRETARY
CPS. No. 3387

The notes set out on page 60 to 148 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Company statement of financial position

For the year ended 31 December 2023

Company	Note	2023	2022
		KShs'000	KShs'000
ASSETS			
Cash and balances with central banks	17	20,884,419	12,978,570
Items in the course of collection	18	316,197	433,996
Loans and advances to banks	19	41,860,158	9,985,263
Loans and advances to customers	20(a)	231,238,716	184,013,890
Financial assets at fair value through profit or loss (FVTPL)	21(a)	538,513	15,080,925
Financial assets measured at fair value through other comprehensive income (FVOCI)	21(b)	55,710,597	49,622,300
Other financial assets at amortised cost	21(c)	26,878,671	22,655,837
Assets held for sale	22	307,501	748,849
Due from group companies	27(a)	5,172,971	1,009,654
Tax recoverable	14(b)	444,373	278,849
Other assets	28	3,481,960	3,338,641
Investment in subsidiaries	23	3,882,712	3,057,685
Property and equipment	24	3,459,209	2,943,953
Intangible assets - software	25(b)	2,432,479	2,272,416
Deferred tax asset	26	9,004,556	7,089,531
TOTAL ASSETS		**405,613,032**	**315,510,359**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	29	20,570,517	9,715,491
Deposits from customers	30	305,995,191	233,806,796
Due to group companies	27(b)	5,087,206	1,914,149
Other liabilities	31	4,672,837	4,755,652
Long term borrowings	32	-	884,444
Subordinated debt	33	12,532,190	9,800,069
		348,857,941	**260,876,601**
Shareholders' equity			
Share capital	34(a)	3,000,000	3,000,000
Share premium	34(b)	5,531,267	5,531,267
Retained earnings		43,528,200	43,444,898
Statutory credit risk reserve	34(c)	9,341,350	6,008,653
Fair value reserve	34(e)	(4,645,726)	(3,351,060)
		56,755,091	**54,633,758**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**405,613,032**	**315,510,359**

The consolidated and separate financial statements set out on pages 48 to 148 were approved and authorised for issue by the Board of Directors on 13 March 2024 and were signed on its behalf by:

Daniel Ndonye
Director

Nikhil R Hira
Director

Gul Abbass Khan
Director

Stella W Gacharia
Secretary

STELLA W. GACHARIA
P. O. Box 101499 - 00101, NAIROBI
CERTIFIED PUBLIC SECRETARY
CPS. No. 3387

The notes set out on page 60 to 148 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Consolidated statement of changes in equity

For The Year Ended 31 December 2023

2023	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Fair value reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non-controlling interest KShs'000	Total KShs'000
At 1 January 2023	**3,000,000**	**5,531,267**	**44,624,663**	**6,109,112**	**(3,356,167)**	**185,377**	**56,094,252**	**1,008,917**	**57,103,169**
Comprehensive income for the year									
Net profit after tax			10,027,469	-	-	-	**10,027,469**	59,119	**10,086,588**
	-	-	**10,027,469**	-	-	-	**10,027,469**	**59,119**	**10,086,588**
Other comprehensive income	-	-							
Translation reserve	-	-	-	-	-	884,432	**884,432**	195,104	**1,079,536**
Fair value reserve	-	-	-	-	(2,033,208)	-	**(2,033,208)**	(384)	**(2,033,592)**
Deferred tax - fair value reserve	-	-	-	-	726,406	-	**726,406**	-	**726,406**
Statutory credit risk reserve	-	-	(4,094,023)	4,094,023	-	-	**-**	-	**-**
Total other comprehensive income	**-**	**-**	**(4,094,023)**	**4,094,023**	**(1,306,802)**	**884,432**	**(422,370)**	**194,720**	**(227,650)**
Total comprehensive income	**-**	**-**	**5,933,446**	**4,094,023**	**(1,306,802)**	**884,432**	**9,605,099**	**253,839**	**9,858,938**
Transactions with owners, recorded directly in equity									
Dividend - 2022	-	-	(6,300,000)	-	-	-	**(6,300,000)**	-	**(6,300,000)**
Rights issue - I&M Bank (T) Limited	-	-	(148,394)	1,114	-	-	**(147,280)**	147,280	**-**
Total transactions with owners for the year	**-**	**-**	**(6,448,394)**	**1,114**	**-**	**-**	**(6,447,280)**	**147,280**	**(6,300,000)**
Balance as at 31 December 2023	**3,000,000**	**5,531,267**	**44,109,715**	**10,204,249**	**(4,662,969)**	**1,069,809**	**59,252,071**	**1,410,036**	**60,662,107**

The notes set out on pages 60 to 148 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Consolidated statement of changes in equity

For The Year Ended 31 December 2023

2022	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Fair value reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non-controlling interest KShs'000	Total KShs'000
At 1 January 2022	**2,980,000**	**5,531,267**	**37,975,789**	**7,281,534**	**(536,377)**	**(100,160)**	**53,132,053**	**1,067,478**	**54,199,531**
Comprehensive income for the year									
Net profit after tax			9,469,652	-	-	-	**9,469,652**	(112,346)	**9,357,306**
	-	-	**9,469,652**	-	-	-	**9,469,652**	**(112,346)**	**9,357,306**
Other comprehensive income	-	-							
Translation reserve	-	-	-	-	-	285,537	**285,537**	64,215	**349,752**
Fair value reserve	-	-	-	-	(4,098,039)	-	**(4,098,039)**	13,414	**(4,084,625)**
Deferred tax - fair value reserve	-	-	-	-	1,278,249	-	**1,278,249**	-	**1,278,249**
Statutory credit risk reserve	-	-	1,172,422	(1,172,422)	-	-	**-**	-	**-**
Total other comprehensive income	-	-	**1,172,422**	**(1,172,422)**	**(2,819,790)**	**285,537**	**(2,534,253)**	**77,629**	**(2,456,624)**
Total comprehensive income	-	-	**10,642,074**	**(1,172,422)**	**(2,819,790)**	**285,537**	**6,935,399**	**(34,717)**	**6,900,682**
Transactions with owners, recorded directly in equity									
Allotment of shares	20,000	-	-	-	-	-	**20,000**	-	**20,000**
Dividend - 2021	-	-	(3,993,200)	-	-	-	**(3,993,200)**	(23,844)	**(4,017,044)**
Total transactions with owners for the year	**20,000**	**-**	**(3,993,200)**	**-**	**-**	**-**	**(3,973,200)**	**(23,844)**	**(3,997,044)**
Balance as at 31 December 2022	**3,000,000**	**5,531,267**	**44,624,663**	**6,109,112**	**(3,356,167)**	**185,377**	**56,094,252**	**1,008,917**	**57,103,169**

The notes set out on pages 60 to 148 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Company statement of changes in equity

For The Year Ended 31 December 2023

2023:	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Fair value reserve KShs'000	Total KShs'000
At 1 January 2023	**3,000,000**	**5,531,267**	**43,444,898**	**6,008,653**	**(3,351,061)**	**54,633,757**
Comprehensive income for the year						
Net profit after tax	-	-	9,715,999		-	9,715,999
	-	**-**	**9,715,999**		**-**	**9,715,999**
Other comprehensive income						
Statutory credit reserve	-	-	(3,332,697)	3,332,697	-	-
Fair value reserve	-	-	-	-	(2,021,071)	(2,021,071)
Deferred tax - fair value reserve			-	-	726,406	726,406
Total other comprehensive income	**-**	**-**	**(3,332,697)**	**3,332,697**	**(1,294,665)**	**(1,294,665)**
Total comprehensive income			**6,383,302**	**3,332,697**	**(1,294,665)**	**8,421,334**
Transactions with owners recorded directly in equity						
Final dividend - 2021	-	-	(6,300,000)		-	(6,300,000)
Total transactions with owners for the year	**-**	**-**	**(6,300,000)**		**-**	**(6,300,000)**
Balance as at 31 December 2023	**3,000,000**	**5,531,267**	**43,528,200**	**9,341,350**	**(4,645,726)**	**56,755,091**

2022:	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Fair value reserve KShs'000	Total KShs'000
At 1 January 2022	**2,980,000**	**5,531,267**	**36,937,303**	**6,747,297**	**(275,440)**	**51,920,427**
Comprehensive income for the year						
Net profit after tax	-	-	9,762,151		-	9,762,151
	-	**-**	**9,762,151**		**-**	**9,762,151**
Other comprehensive income						
Statutory credit reserve	-	-	738,644	(738,644)	-	-
Fair value reserve	-	-	-	-	(4,469,218)	(4,469,218)
Deferred tax - fair value reserve			-	-	1,393,598	1,393,598
Total other comprehensive income	**-**	**-**	**738,644**	**(738,644)**	**(3,075,620)**	**(3,075,620)**
Total comprehensive income			**10,500,795**	**(738,644)**	**(3,075,620)**	**6,686,531**
Transactions with owners recorded directly in equity						
Allotment of shares	20,000	-	-	-	-	20,000
Final dividend - 2019	-	-	(3,993,200)	-	-	(3,993,200)
Total transactions with owners for the year	**20,000**	**-**	**(3,993,200)**	**-**	**-**	**(3,973,200)**
Balance as at 31 December 2023	**3,000,000**	**5,531,267**	**43,444,898**	**6,008,653**	**(3,351,060)**	**54,633,758**

The notes set out on pages 60 to 148 form an integral part of these financial statements.

OUR FINANCIALS (Continued)
Consolidated statement of cash flows
For the year ended 31 December 2023

	Note	2023	2022
		KShs'000	**KShs'000**
Profit before income tax		12,566,914	11,739,214
Adjustments for:			
Depreciation on property and equipment	24	734,571	697,048
Depreciation on right of use asset	24	316,973	288,447
Amortisation of intangible asset	25(b)	858,573	642,748
Interest on lease liabilities	8	145,731	145,626
Profit on sale of property and equipment		(57)	(1,923)
Net interest income		(22,018,811)	(17,881,427)
Net income on financial assets at fair value through profit or loss (FVTPL)	10	(875,594)	(860,147)
Effect of exchange rate fluctuations on cash and cash equivalent held		(611,782)	(281,125)
Exchange reserves		3,906,667	1,795,114
		(4,976,815)	**(3,716,425)**
(Increase)/decrease in operating assets			
Movement in loans and advances to customers		(56,018,883)	(23,170,745)
Financial assets at fair value through profit or loss (FVTPL)		15,218,334	1,712,182
Financial assets measured at fair value through other comprehensive income (FVOCI)		(8,009,087)	8,406,085
Other financial assets at amortised cost		(7,291,594)	7,062,000
Assets held for sale		441,348	252,581
Loans and advances to Banks		346,889	(32,198)
Cash and balances with Central Banks:			
– Cash Reserve Ratio		(3,755,281)	(370,769)
Due from group companies	17	(2,165,158)	8,524
Other assets		(359,832)	(1,582,801)
		(61,593,264)	**(7,715,141)**
Increase/(decrease) in operating liabilities			
Customer deposits		83,313,078	11,479,321
Deposits from banks		10,447,107	7,861,758
Due to group companies		2,967,007	(59,943)
Other liabilities		(178,689)	2,426,053
		96,548,503	**21,707,189**

(Continued page 57)

The notes set out on page 60 to 148 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Consolidated statement of cash flows - (Continued)

For the year ended 31 December 2023

	Note	2023	2022
		KShs'000	KShs'000
Cash flows generated from operating activities		**29,978,424**	**10,275,623**
Tax paid	14(b)	(3,963,303)	(4,150,044)
Interest on lease liabilities		(145,731)	(145,626)
Interest received		40,640,989	29,031,066
Interest paid on deposits		(18,622,178)	(14,847,372)
Interest paid on long term borrowings and debt capital		(729,477)	(524,434)
Net cash flows generated from operating activities		**47,158,724**	**19,639,213**
Cash flows used in investing activities			
Purchase of property and equipment (excluding right of use assets)	24	(643,295)	(356,194)
Purchase of intangible assets	25(b)	(991,023)	(920,658)
Proceeds from disposal of property and equipment		45,405	20,068
Net cash used in investing activities		**(1,588,913)**	**(1,256,784)**
Cash flows used in financing activities			
Payment of lease liabilities	31	(361,642)	(323,979)
Payment on principal - long term borrowing	32	(1,500,690)	(2,892,781)
Dividend paid to shareholders of the company		(6,300,000)	(3,993,200)
Issue of shares - I&M Bank LIMITED		-	20,000
Dividend paid to non-controlling interest		-	**(23,844)**
Net cash used in financing activities		**(8,162,332)**	**(7,213,804)**
Net increase/(decrease) in cash and cash equivalents		**37,407,479**	**11,168,625**
Cash and cash equivalents at start of the year		**16,052,681**	**4,602,931**
Effect of exchange rate fluctuations on cash and cash equivalents held		611,782	281,125
Cash and cash equivalents at end of the year	35	**54,071,942**	**16,052,681**

The notes set out on pages 60 to 148 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Company statement of cash flows

For the year ended 31 December 2023

	Note	2023	2022
		KShs'000	KShs'000
Profit before income tax		12,084,199	12,260,083
Adjustments for:			
Depreciation on property and equipment	24	674,986	627,020
Depreciation on right of use asset	24	284,962	229,779
Amortisation of intangible asset	25(b)	754,143	558,342
Interest on lease liabilities	8	130,137	129,922
Profit on sale of property and equipment		(57)	(1,923)
Effects of exchange rate changes on cash and cash equivalents		(117,492)	(92,910)
Exchange reserves		3,120,503	296,539
Net interest income		(19,272,388)	(16,238,247)
Net income on financial assets at fair value through profit or loss (FVTPL)	10	(863,910)	(860,147)
Dividend income	11	(117,000)	(87,387)
		(3,321,917)	**(3,178,929)**
(Increase)/decrease in operating assets			
Movement in loans and advances to customers		(47,224,826)	(21,310,171)
Financial assets at fair value through profit or loss (FVTPL)		15,406,322	1,712,182
Financial assets measured at fair value through other comprehensive income (FVOCI)		(8,109,369)	8,747,437
Other financial assets at amortised cost		(4,222,834)	7,949,368
Assets held of sale		441,348	252,581
Loans and advances to Banks		346,889	(32,198)
Due from group companies		(4,163,317)	(170,583)
Cash and balances with Central Bank of Kenya:			
– Cash Reserve Ratio		(3,129,410)	(201,599)
Other assets		(143,319)	(1,471,663)
		(50,798,516)	**(4,524,646)**
Increase/(decrease) in operating liabilities			
Customer deposits		72,188,395	8,444,442
Balances due to group companies		3,173,057	140,341
Deposits from banks		10,855,026	6,394,535
Other liabilities		(295,893)	2,584,929
		85,920,585	**17,564,247**

(Continued page 59)

The notes set out on page 60 to 148 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Company statement of cash flows - (Continued)

For the year ended 31 December 2023

	Note	2023	2022
		KShs'000	KShs'000
Cash flows generated from operating activities		**31,800,152**	**9,860,672**
Tax paid	14(b)	(3,722,343)	(3,938,631)
Interest on lease liabilities		(130,137)	(129,922)
Interest received on loans and advances		36,437,339	26,289,110
Interest paid on deposits		(17,164,951)	(13,642,724)
Interest paid on long term borrowings and debt capital		(661,657)	450,389.00
Net cash flows generated from operating activities		**46,558,403**	**18,888,894**
Cash flows used in investing activities			
Purchase of property and equipment (excluding right of use assets)	24	(603,016)	(299,510)
Purchase of intangible assets	25(b)	(914,206)	(914,122)
Proceeds from disposal of property and equipment		22,927	3,600
Purchase of additional shares in I&M Bank (T) Limited	23	(825,027)	-
Dividends received	11	117,000	87,387
Net cash used in investing activities		**(2,202,322)**	**(1,122,645)**
Cash flows used in financing activities			
Payment of lease liabilities	31	(293,863)	(279,194)
Payment on principal-long term borrowing	32	(999,286)	(1,762,222)
Dividend paid		(6,300,000)	(3,993,200)
Issue of shares- I&M Bank LIMITED		-	20,000
Net cash outflow from financing activities		**(7,593,149)**	**(6,014,616)**
Net increase/(decrease) in cash and cash equivalents		**36,762,932**	**11,751,633**
Cash and cash equivalents at start of the year		**13,406,034**	**1,561,491**
Effect of exchange rate fluctuations on cash and cash equivalents held		117,492	92,910
Cash and cash equivalents at end of the year	35	**50,286,458**	**13,406,034**

The notes set out on pages 60 to 148 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

1. REPORTING ENTITY

II&M Bank LIMITED (the "Bank" or "Company"), a financial institution licensed under the Kenyan Banking Act (Chapter 488), provides corporate and retail banking services in various parts of the country. The Bank is incorporated in Kenya under the Kenyan Companies Act and has subsidiaries in Kenya and Tanzania. The consolidated financial statements of the Bank as at and for the year ended 31 December 2023 comprise the Bank and its subsidiaries (together referred to as the "Group"). The address of its registered office is as follows:

1 Park Avenue
1st Parklands Avenue
PO Box 30238-00100
Nairobi, Kenya

The Bank has a 78.51% shareholding in I&M Bank (T) Limited and 100% shareholding in I&M Bancassurance Intermediary Limited (IMBIL) (incorporated on 23 July 2014).

2. BASIS OF PREPARATION

(a) Statement of compliance

The Group's consolidated and separate financial statements for the year 2023 have been prepared in accordance with IFRS Accounting Standards and in the manner required by the Kenyan Companies Act 2015. Additional information required by the regulatory bodies is included where appropriate. Details of the material accounting policies are included in Note 3. The financial statements have been prepared based on accounting policies applicable to a going concern.

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

(b) Basis of measurement

These consolidated and separate financial statements have been prepared under the historical cost basis of accounting except for the financial assets classified as fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI) which are measured at fair value.

(c) Functional and presentation currency

These consolidated and separate financial statements are presented in Kenya Shillings (KShs), which also is the Bank's functional currency. All financial information presented in KShs has been rounded to the nearest thousand (KShs'000) except where otherwise stated.

(d) Use of estimates and judgments

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

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

In particular information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 5.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES

The material accounting policies adopted in the preparation of these consolidated and separate financial statements are set out below:

(a) Basis of consolidation

(i) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

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

(ii) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement in the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. All intercompany transactions are eliminated during consolidation.

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation.

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

(b) Foreign currencies

Foreign currency transactions are translated into the functional currency of Group entities using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss in the year in which they arise.

Foreign currency non-monetary items measured at fair value are translated into functional currency using the rate of exchange at the date the fair value was determined. Foreign currency gains and losses on non-monetary items are recognized in the statement of profit or loss or statement of comprehensive income consistent with the gain or loss on the non-monetary item.

(c) Foreign operations

The results and financial position of the subsidiaries have been translated into the presentation currency as follows:

(i) Assets and liabilities at each reporting period are translated at the closing rate at the reporting date;
(ii) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES- (Continued)

(d) Income Recognition

(i) Net interest income

Effective interest rate and amortised cost

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

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

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

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

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

For information on when financial assets are credit-impaired, see Note 3(f)(iii).

Presentation

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at Fair Value Through Other Comprehensive Income (FVOCI) calculated on an effective interest basis;

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at Fair Value Through Profit or Loss (FVTPL).

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES- (Continued)

(d) Income Recognition- (Continued)

(ii) Net fee and commission income

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

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

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Net trading income and net income on financial assets at fair value through profit or loss

'Net trading income and net income on financial assets at fair value through profit or loss' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

(iv) Other operating income

Other operating income comprises rental income and gain on disposal of property and equipment. Rental income is recognised in the profit or loss on a straight-line basis over the term of the lease.

(v) Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of operating income.

(e) Income Tax Expense

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for:

- temporary differences relating to the initial recognition of assets or liabilities in a transaction that is not a business
- combination and which affects neither accounting nor taxable profit;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023
3. MATERIAL ACCOUNTING POLICIES- (Continued)

(e) Income Tax Expense - (Continued)

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

(f) Financial instruments

(i) Initial recognition and initial measurement of financial assets

The Group recognises a financial asset in its statement of financial position when it becomes party to the contractual provisions of the instrument. Financial asset (except for certain trade receivables) is measured at initial recognition at its fair value plus, for financial assets not subsequently measured 'at fair value through profit or loss' transaction costs that are directly attributable to the acquisition of the financial asset. The Group's Trade receivables that do not have a significant financing component (determined in accordance with IFRS 15- Revenue from Contracts with Customers) are not initially measured at fair value, rather they are initially measured at their transaction price. The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

(ii) Classification and measurement of financial assets

After initial recognition, the Group's financial assets are measured at:

(i) amortised cost;
(ii) fair value through other comprehensive income (FVOCI); or
(iii) fair value through profit or loss (FVPL).

Except for the Group's financial assets that are designated at initial recognition as at fair value through profit or loss, the Group's financial asset is classified on the basis of both:

(a) the Group's business model for managing the financial assets; and
(b) the contractual cash flow characteristics of the financial asset.

(i) *Amortised cost;*

Except for the Group's financial assets that are designated at initial recognition as at fair value through profit or loss the Group's financial assets are measured at amortised cost only if both of the following conditions are met:

a. the financial asset of the Group is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
b. the contractual terms of the Group's financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If the Group's financial asset satisfies both of these conditions, the Group measures the financial asset at amortised cost unless it is designated as at fair value through profit or loss (FVPL) on initial recognition. Any of the Group's Financial assets that do not meet the conditions stated above, are required to be subsequently measured at fair value through profit or loss except for investments in equity instruments not held for trading that are elected at initial recognition to be measured at fair value through other comprehensive income. Financial assets of the Group that meets the condition in (b) above but do not meet the condition in (a) above, may meet the criteria to be measured at fair value through other comprehensive income.

Because both conditions (the business model test and the contractual cash flows characteristics test) must be met for amortised cost measurement, the order in which the tests are performed is irrelevant for the Group. The Group classifies its financial assets into the following categories: financial assets at fair value through profit and loss (FVPL); equity investments designated as at fair value through other comprehensive income (FVOCI) and financial assets at amortised cost. Management determines the appropriate classification of its investment at initial recognition.

The classification of financial instruments can be seen in the table below.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES- (Continued)

(f) Financial instruments - (Continued)

(i) *Amortised cost; (continued)*

Category	Classification	Financial statement caption	Class
Financial assets	Fair value through profit or loss	Financial assets at fair value through profit or loss	Debt securities
			Derivative assets
	Amortised cost	Loans and advances to banks	
		Due from group companies	
		Loans and advances to customers	
		Other assets	
		Cash and balances with Central Bank of Kenya	
	Fair value through other comprehensive income	Fiancial assets at fair value through other comprehensive income	Investment securities designated at FVOCI
Financial liabilities	Financial Liabilities at amortised cost	Deposits from banks	
		Deposits from customers	
		Borrowings	
		Due to group companies	
		Other liabilities	
	Fair value through profit or loss	Financial assets at fair value through profit or loss	Derivative liabilities
Off-balance sheet financial instruments	Loan commitments		
	Guarantees, acceptances and other financial liabilities		
The Group recognises ECL based on unbiased forward-looking information. ECL is recognised on all financial assets measured at amortised cost, lease receivables, debt instruments measured at fair value through other comprehensive income, loan commitments not measured at fair value and financial guarantee contracts not measured at fair value.			

Business model assessment for amortised cost measurement

For amortised cost measurement, the Group's financial assets are held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows.

Financial assets of the Group that are held within a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. That is, the Group manages the assets held within the portfolio to collect those contractual cash flows (instead of managing the overall return on the portfolio by both holding and selling assets).

In determining whether cash flows are going to be realised by collecting the Group's financial assets' contractual cash flows, the Group considers the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity. However, sales in themselves do not determine the business model of the Group and therefore cannot be considered in isolation. Instead, information about the Group's past sales and expectations about future sales provide evidence related to how the Group's stated objective for managing the financial assets is achieved and, specifically, how cash flows are realised. The Group considers information about past sales within the context of the reasons for those sales and the conditions that existed at that time as compared to current conditions.

(ii) *Fair value through other comprehensive income (FVOCI)*

Except for financial assets of the Group that are designated at initial recognition as at fair value through profit or loss the Group's financial asset is measured at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:

(a) the Group's financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
(b) the contractual terms of the Group's financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets of the Group that do not meet the condition in (b) above, are required to be subsequently measured at fair value through profit or loss or in the case of certain investments in equity instruments may be elected at initial recognition to be measured at fair value through other comprehensive income. Financial asset of the Group that meets the condition in (b) above but does not meet the condition in (a) above, may meet the criteria to be measured at amortised cost.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES- (Continued)

(f) Financial instruments - (Continued)

(ii) Classification and measurement of financial assets - (Continued)

(ii) *Fair value through other comprehensive income (FVOCI) - (Continued)*

Designation of equity instruments as at FVOCI

At initial recognition, the Group may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3-Business Combinations applies. The Group's financial asset is held for trading if:

(a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

The election by the Group to designate an investment in an equity instrument at FVOCI is made on an instrument-by-instrument (i.e., share-by-share) basis. If the election is made, only dividend income that does not clearly represent a recovery of part of the cost of the investment is recognised in profit or loss, with all other gains and losses (including those relating to foreign exchange) recognised in other comprehensive income. These gains and losses remain permanently in equity and are not subsequently reclassified to profit or loss, even on derecognition. However, the Group may transfer the cumulative gain or loss within equity as a reserve movement.

Business model assessment for FVOCI measurement

Fair value through other comprehensive income measurement financial assets must be held within the Group's business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Group may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of business model, the Group's key management personnel have made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. There are various objectives that may be consistent with this type of business model.

For example, the objective of the Group's business model may be to manage everyday liquidity needs, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities that those assets are funding. To achieve such an objective, the Group will both collect contractual cash flows and sell financial assets.

Compared to the Group's business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it. However, there is no threshold for the frequency or value of sales that must occur in this business model because both collecting contractual cash flows and selling the Group's financial assets are integral to achieving its objective.

(iii) *Fair value through profit or loss (FVPL)*

The Group classifies assets that do not qualify for amortised cost measurement or measurement at FVOCI to be measured subsequently to initial recognition at FVPL (except if it is an investment in an equity instrument designated at FVOCI).

The Group may irrevocably elect on initial recognition to designate a financial asset that meets the conditions for amortised cost measurement or FVOCI as at FVPL if that designation eliminates or significantly reduces accounting mismatch that would have occurred if the financial asset had been measured at amortised cost or FVOCI.

Gains and losses that arise between the end of the last annual reporting period and the date an instrument is derecognised do not constitute a separate 'profit/loss on disposal'. Such gains and losses will have arisen prior to disposal, while the item is still being measured at FVPL, and should be recognised in profit or loss when they occur.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2023
3. MATERIAL ACCOUNTING POLICIES- (Continued)
(f) Financial instruments - (Continued)
(ii) Classification and measurement of financial assets - (Continued)

(iii) *Fair value through profit or loss (FVPL)- (Continued)*

Business model assessment - (Continued)

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are Solely Payments of Principal and Interest (SPPI Test)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Group holds a portfolio of long-term fixed rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty.

The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Debt instruments measured at amortised cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost. Interest income on these instruments is recognized in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on debt instruments measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the expected credit losses (ECL) in the statement of financial position.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES- (Continued)

(f) Financial instruments - (Continued)

(ii) Classification and measurement of financial assets - (Continued)

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognized in non-interest income in the Consolidated Statement of profit or loss and other comprehensive income. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in non-interest income in the consolidated Statement of Profit or Loss and Other Comprehensive Income on an average cost basis. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the statement of profit or loss and other comprehensive income.

Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Consolidated Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to Provision for credit losses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The accumulated allowance recognised in OCI is recycled to the Consolidated Statement of Profit or Loss and Other Comprehensive Income upon derecognition of the debt instrument.

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:
(i) Are held for trading purposes;
(ii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the Consolidated Statement of Financial Position, with transaction costs recognized immediately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as part of Non-interest income. Realized and unrealized gains and losses are recognized as part of Non-interest income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Financial assets classified in this category are those that have been designated by the Group upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial assets for which a reliable estimate of fair value can be obtained.

Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial assets designated at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recognized in Non-interest income in the statement of profit or loss.

Equity instruments

The Group has elected at initial recognition to irrevocably designate an equity investment, held for purposes other than trading, to FVOCI. The fair value changes, including any associated foreign exchange gains or losses, are recognized in OCI and are not subsequently reclassified in the statement of profit or loss and other comprehensive income, including upon disposal. Realized gains and losses are transferred directly to retained earnings upon disposal. Consequently, there is no review required for impairment. Dividends will normally be recognized in the statement of profit or loss and other comprehensive income.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The Group internal policy does not allow reclassification of financial assets after initial recognition.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES- (Continued)

(f) Financial instruments - (Continued)

(ii) Classification and measurement of financial assets - (Continued)

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised.

Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Bank's net interest income, net trading income, and derivative assets and liabilities.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

(iii) *Impairment on financial assets*

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (amortised cost and FVOCI) including loans and advances, trade receivables from Bancassurance and Advisory, and other financial assets measured at amortised cost.
- lease receivables (rental income collected from Investment properties);
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date i.e. balances held with central banks, domestic government bills and bonds, and loans and advances to banks; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition i.e. stage 1 (see Note 5).

Loss allowances for lease receivables (on investment property), and trade receivables (on advisory and bancassurance) are always measured at an amount equal to lifetime ECL. Trade receivables are considered fully impaired if they are over 360 days past due.

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

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

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES- (Continued)

(f) Financial instruments - (Continued)

(iii) *Impairment on financial assets- (Continued)*

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Significant Increase in Credit Risk (SICR)

At each reporting date, the Group performs both qualitative and quantitative assessments to determine whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

The common assessments for SICR is largely determined by the macroeconomic outlook, management judgement, and delinquency and monitoring.The Group considers that a Significant increase in credit risk occurs when assets is more than 30 days past due and to be in default of more than 30 days past due.

Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include a significant departure from the primary source of repayment, changes in adjudication criteria for a particular group of borrowers; changes in portfolio composition; and legislative changes impacting certain portfolios.

With regards to delinquency and monitoring, there is a rebuttable presumption that delinquency backstop when contractual payments are more than 30 days past due.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date (stage 1 and 2):* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- *financial assets that are credit-impaired at the reporting date (stage 3):* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Group expects to recover. See also Note 5.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see note 3(f)(iv)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023
3. MATERIAL ACCOUNTING POLICIES- (Continued)

(f) Financial instruments - (Continued)

(iii) *Impairment on financial assets- (Continued)*
Restructured financial assets - (Continued)

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as stage 3 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
- the disappearance of an active market for a security because of financial difficulties.

A loan that is overdue for 90 days or more is considered impaired. In addition, a loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Government securities (debt instruments)

In making an assessment of whether an investment in sovereign debt (government bills and bonds, balances due from central banks) is credit-impaired, the Group considers the following factors;

(i) The country's ability to access own local capital markets for new debt issuance;
(ii) The respective government ability to maintain sovereignty on its currency; and
(iii) The intentions and capacity, reflected in public statements, of governments and agencies to honour these commitments.

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:

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

Write-off

Financial assets at both amortised and FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES- (Continued)

(f) Financial instruments - (Continued)

(iv) *De-recognition*

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(v) *Modifications of financial assets and financial liabilities*

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

The impact of modifications of financial assets on the expected credit loss calculation is discussed in note 3(f)(iii).

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES- (Continued)

(f) Financial instruments - (Continued)

(v) *Modifications of financial assets and financial liabilities - (Continued)*

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

An input is deemed to be significant if it is shown to contribute more than 10% to the fair value of an item. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations as well as through employing other analytical techniques.

(g) Fair value measurement

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measure at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of net exposure to either market or credit risk are measure on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group measure fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements: (Refer to Note 7).

– Quoted market prices – Level 1 Fair values are classified as Level 1 if they have been determined using unadjusted quoted prices in active markets for identical assets and liabilities that the entity can access at the measurement date. The quoted prices are required to represent actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023
3. MATERIAL ACCOUNTING POLICIES- (Continued)

(g) Fair value measurement - (Continued)

- Valuation technique using observable inputs – Level 2 Inputs classified as Level 2 are observable for the asset or liability, either directly (i.e. as prices), or indirectly (i.e. derived from prices), but do not constitute quoted prices that are included within Level 1. A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.
- Valuation technique using significant unobservable inputs – Level 3 Fair values are classified as Level 3 if their determination incorporates significant inputs that are not based on observable market data (that is, they are unobservable inputs). An input is deemed to be significant if it is shown to contribute more than 10% to the fair value of an item. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations as well through employing other analytical techniques.

(h) Cash and cash equivalents

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

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

(i) Property and equipment

Items of property and equipment are measured at cost or valuation(buildings) less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the asset.

Subsequent expenditure is capitalised only when it is probable that future economic benefits of the expenditure will flow to the Group. On-going repairs and maintenance are expensed as incurred.

Depreciation is charged on a straight line basis to allocate the cost of each asset, to its residual value over its estimated useful life as follows:

– Leasehold improvements	8 – 10 years or over the period of Lease if shorter than 8 years
– Computer equipment and computer software	3 – 4 years
– Furniture, fittings and fixtures	8 years
– Motor vehicles	4- 5 years

Depreciation is recognised in profit or loss. The assets' residual values and useful lives are reviewed and adjusted as appropriate, at each reporting date.

Any gains or losses on disposal of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in other income in profit or loss.

(j) Intangible assets

(i) *Computer software*

The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software is measure at cost less accumulated amortisation and accumulated impairment. The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding five years. Costs associated with maintaining software are recognised as an expense as incurred.

Amortisation methods, residual values and useful lives are reviewed and adjusted as appropriate, at each reporting date.

(ii) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the Group's interest in the net fair value of the acquired company's identifiable assets, liabilities and contingent liabilities as at the date of acquisition. Goodwill is stated at cost less accumulated impairment losses. At the reporting date, the Group assesses the goodwill carried in the books for impairment. The task involves comparing the carrying value of a cash generating unit (CGU) including cashflows discounted at a rate of interest that reflects the inherent risks of the CGU to which the goodwill relates to.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023
3. MATERIAL ACCOUNTING POLICIES- (Continued)

(k) Leases

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

Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

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

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

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

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

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

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

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

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES- (Continued)

(l) Impairment of non-financial assets

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

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

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

(m) Derivative financial instruments

The Group uses financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

Derivative financial instruments are recognised initially at fair value on the date the derivative contract is entered into. Subsequent to initial recognition, derivative financial instruments are stated at fair value and changes recognized in profit or loss.

The fair value of forward exchange contracts is the amount of the mark to market adjustment at the reporting date.

(n) Employee benefits

(i) Defined contribution plan

The majority of the Group's employees are eligible for retirement benefits under a defined contribution plan.

The assets of the defined contribution scheme are held in a separate trustee administered guaranteed scheme managed by an insurance company. Retirement plans are funded by contributions from the employees and the respective entities. The Group's contributions are recognised in profit or loss in the year to which they relate.

The Group also contributes to various national social security funds in the countries it operates. Contributions are determined by local statute and the Group's contributions are charged to the income statement in the year to which they relate.

(ii) Leave accrual

The monetary value of the unutilised leave by staff as at year end is recognised within accruals and the movement in the year is debited/credited to the profit or loss.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023
3. MATERIAL ACCOUNTING POLICIES- (Continued)

(o) Share capital and share issue costs

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from initial measurement of the equity instruments.

(p) Earnings per share

Earnings per share are calculated based on the profit attributable to owners of the company divided by the number of ordinary shares. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the year.

(q) Dividends

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

(r) Contingent liabilities

Letters of credit, acceptances and guarantees are not recognised and are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to profit or loss.

(s) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

(t) Fiduciary activities

The Group commonly acts as Trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefits plans and institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

(u) Comparative information

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

(v) Non-current assets held for sale

Non-current assets are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal, are re-measured in accordance with the Group's accounting policies. Thereafter, generally the assets, or disposal, are measured at the lower of their carrying amount and fair value less cost to sell. For non-financial assets, fair value takes into account the highest and best use either on a standalone basis or in combination with other assets or other assets and liabilities.

Any impairment loss on a disposal is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Bank's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(w) Offsetting

In accordance with IAS 32 Financial Instruments: Presentation, the Group reports financial assets and financial liabilities on a net basis on the statement of financial position only if there is a current legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES- (Continued)

(x) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the year

The following are the new standards and amendments effective during the year ended 31 December 2023, including consequential amendments to other standards with the date of initial application being 1st January 2023.

New standards or amendments	Effective for annual period beginning or after
IFRS 17 Insurance Contracts, including amendments to Initial Application of IFRS 17 and IFRS 9 Comparative Information	1 January 2023
Disclosure of Accounting Policy (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023
Definition of Accounting Estimate (Amendments to IAS 8)	1 January 2023
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes	1 January 2023
International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12	23 May 2023

The Group did not early adopt new or amended standards in the year ended 31 December 2023. None of the standards had a material effect on the financial statements of the Group and Company.

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2023

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2023 and have not been applied in preparing these financial statements.

The Group does not plan to adopt these standards early. These are summarised below:

New standards or amendments	Effective for annual period beginning or after
Classification of liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements)	1 January 2024
Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	1 January 2024
Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7	1 January 2024
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures)	Optional
Lack of Exchangeability – Amendments to IAS 21	1 January 2025

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

None of the standards is expected to have a material effect on the financial statements of the Group and Company.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk.

Financial risk
The most important types of risk to which the Group is exposed are credit risk, market risks and operational risk. Market risk includes liquidity risk, currency risk and interest rate risk.

(a) Credit risk

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

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative. With gross-settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honours its obligation but the counterparty fails to deliver the counter-value.

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

The Board of Directors of the individual Group entities have delegated responsibility of the management of credit risk to their respective Board Credit Committees. Further, each entity has its own and separate Credit Risk Management Committee that reports to its Board Credit Committee. The Group's credit exposure at the reporting date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position.

The risk that the counter-parties to trading instruments might default on their obligation is monitored on an on-going basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments over their remaining life.

To manage the level of credit risk, the Group deals with counter parties of good credit standing wherever possible and when appropriate, obtains collateral.

The Group also monitors concentrations of credit risk that arise by industry or sector and type of customer in relation to Group loans and advances to customers by carrying a balanced portfolio. The Group concentration is on manufacturing, wholesale and retail and real estate and all are within internal policy limits on single sector concentration.

To determine impairment of loans and advances, the Group assesses whether it is probable that it will be unable to collect all principal and interest according to the contractual terms of the loans and advances.

Exposure to credit risk
The Group has no significant exposure to any individual customer or counter-party.

To determine impairment of loans and advances, the Group assesses whether it is probable that it will be unable to collect all principal and interest according to the contractual terms of the loans and advances.

(i) Credit quality analysis – Loans and advances to customers
The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt instruments. 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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT
(a) Credit risk (Continued)
(i) Credit quality analysis – Loans and advances to customers (Continued)

See accounting policy on note 3(f)(iii) for the explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired.

Group

2023:	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 31 December
Risk classification	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	216,681,479	-	-	216,681,479
Watch (Stage 2)	-	21,341,922	-	21,341,922
Non-performing loans (Stage 3)	-	-	32,556,984	32,556,984
Gross carrying amount	**216,681,479**	**21,341,922**	**32,556,984**	**270,580,385**
Loss allowance	(1,056,288)	(1,258,540)	(8,891,524)	(11,206,352)
Carrying amount	**215,625,191**	**20,083,382**	**23,665,460**	**259,374,033**

2022:	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 31 December
Risk classification	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	172,001,551	-	-	172,001,551
Watch (Stage 2)	-	23,380,927	-	23,380,927
Non-performing loans (Stage 3)	-	-	23,381,046	23,381,046
Gross carrying amount	**172,001,551**	**23,380,927**	**23,381,046**	**218,763,524**
Loss allowance	(228,775)	(3,317,171)	(11,862,428)	(15,408,374)
Carrying amount	**171,772,776**	**20,063,756**	**11,518,618**	**203,355,150**

Company

2023:	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 31 December
Risk classification	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	194,884,712	-	-	194,884,712
Watch (Stage 2)	-	17,998,638	-	17,998,638
Non-performing loans (Stage 3)	-	-	27,139,560	27,139,560
Gross carrying amount	**194,884,712**	**17,998,638**	**27,139,560**	**240,022,910**
Loss allowance	(972,722)	(1,232,168)	(6,579,304)	(8,784,194)
Carrying amount	**193,911,990**	**16,766,470**	**20,560,256**	**231,238,716**

2022:	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 31 December
Risk classification	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	156,870,933	-	-	156,870,933
Watch (Stage 2)	-	21,089,009	-	21,089,009
Non-performing loans (Stage 3)	-	-	19,662,342	19,662,342
Gross carrying amount	**156,870,933**	**21,089,009**	**19,662,342**	**197,622,284**
Loss allowance	(219,206)	(3,077,974)	(10,311,214)	(13,608,394)
Carrying amount	**156,651,727**	**18,011,035**	**9,351,128**	**184,013,890**

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT

(a) Credit risk (Continued)

(i) Credit quality analysis – Loans and advances to customers (Continued)

The following shows the grading of loans and advances to customers in line with local prudential guidelines

Group:	2023	2022
Loans and advances to customers	**KShs '000**	**KShs '000**
Identified impairment:		
Grade 3: Substandard	8,995,748	4,254,091
Grade 4: Doubtful	16,991,251	11,657,821
Grade 5: Loss	6,569,985	7,469,134
	32,556,984	**23,381,046**
Specific allowances for impairment	(8,891,524)	(11,862,428)
Carrying amounts	**23,665,460**	**11,518,618**
Unidentified impairment:		
Grade 2: Watch	20,712,259	23,380,927
Grade 1: Normal	217,311,142	172,001,551
	238,023,401	**195,382,478**
Portfolio allowances for impairment	(2,314,828)	(3,545,946)
Carrying amounts	**235,708,573**	**191,836,532**
Total carrying amounts	**259,374,033**	**203,355,150**

Company:	2023	2022
Loans and advances to customers	**KShs '000**	**KShs '000**
Identified impairment:		
Grade 3: Substandard	7,653,876	2,127,152
Grade 4: Doubtful	15,821,377	11,598,822
Grade 5: Loss	3,664,307	5,936,368
	27,139,560	**19,662,342**
Specific allowances for impairment	(6,579,304)	(10,311,214)
Carrying amounts	**20,560,256**	**9,351,128**
Unidentified impairment:		
Grade 2: Watch	17,368,975	21,089,009
Grade 1: Normal	195,514,375	156,870,933
	212,883,350	**177,959,942**
Portfolio allowances for impairment	(2,204,890)	(3,297,180)
Carrying amounts	**210,678,460**	**174,662,762**
Total carrying amounts	**231,238,716**	**184,013,890**

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT

(a) Credit risk (Continued)

(i) Credit quality analysis – Loans and advances to customers (Continued)

Group:	Gross	Net
Identified impairment: **31 December 2023**	**KShs '000**	**KShs '000**
Grade 3: Substandard	8,995,748	10,496,527
Grade 4: Doubtful	16,991,251	10,330,923
Grade 5: Loss	6,569,985	2,838,010
	32,556,984	**23,665,460**
31 December 2022		
Grade 3: Substandard	4,254,091	1,680,589
Grade 4: Doubtful	11,657,821	5,243,261
Grade 5: Loss	7,469,134	4,594,768
	23,381,046	**11,518,618**
Unidentified impairment: **31 December 2023**		
Grade 1: Normal	217,311,142	216,254,854
Grade 2: Watch	20,712,259	19,453,719
	238,023,401	**235,708,573**
31 December 2022		
Grade 1: Normal	172,001,551	171,772,776
Grade 2: Watch	23,380,927	20,063,756
	195,382,478	**191,836,532**

Company:	Gross	Net
Identified impairment: **31 December 2023**	**KShs '000**	**KShs '000**
Grade 3: Substandard	7,653,876	9,504,238
Grade 4: Doubtful	15,821,377	9,409,871
Grade 5: Loss	3,664,307	1,646,147
	27,139,560	**20,560,256**
31 December 2022		
Grade 3: Substandard	2,127,152	245,603
Grade 4: Doubtful	11,598,822	5,187,317
Grade 5: Loss	5,936,368	3,918,208
	19,662,342	**9,351,128**
Unidentified impairment: **31 December 2023**		
Grade 1: Normal	195,514,375	194,541,653
Grade 2: Watch	17,368,975	16,136,807
	212,883,350	**210,678,460**
31 December 2022		
Grade 1: Normal	156,870,933	156,651,727
Grade 2: Watch	21,089,009	18,011,035
	177,959,942	**174,662,762**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT
(a) Credit risk (Continued)
(i) Credit quality analysis – Loans and advances to customers (Continued)

Probability of defaults (PDs) applicable during the year as shown below

	I&M Kenya		I&M Tanzania	
SECTOR	Normal	Watch	Normal	Watch
Agriculture	2.63%	1.02%	0.05%	38.07%
Manufacturing	1.32%	10.65%	2.31%	34.11%
Building and construction	2.65%	15.45%	0.05%	0.05%
Mining & quarrying	0.65%	9.50%	0.05%	47.26%
Energy & water	0.62%	7.71%	-	-
Wholesale trade & retail trade	1.81%	12.42%	0.07%	57.11%
Tourism, restaurants and hotels	1.94%	8.09%	0.05%	0.05%
Transport & communication	0.85%	19.38%	0.05%	0.05%
Real estate	1.12%	9.80%	0.36%	21.36%
Financial services	0.77%	12.19%	-	-
Personal and household	1.25%	4.57%	2.09%	0.05%
Education	-	-	0.05%	0.05%
Housing loan	-	-	4.21%	0.05%
Other services	-	-	1.67%	38.07%

Impaired loans and securities

Impaired loans and securities are loans for which the Group determines that it is probable that it will be unable to collect all or part principal and interest due according to the contractual terms of the loan agreement(s). These loans are graded 3 (Substandard) to 5 (Loss) in the Group's internal credit risk and grading system.

Neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed with reference to the Group's internal rating system. All such loans must be performing in accordance with the contractual terms and are expected to continue doing so. Loans in this category are fully protected by their current sound net worth and paying capacity of the borrower. These loans and advances are categorised as normal in line with Central Bank of Kenya (CBK) prudential guidelines.

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group. These loans are stage 2 (Watch) in the Group's internal credit risk and grading system.

(ii) Credit quality analysis – trade receivables

The Group's exposure to trade receivables credit risk is influenced mainly by the individual characteristics of each customer. The Group uses an allowance matrix, using the simplified approach, to measure the lifetime ECLs of trade receivables for customers. Loss rates (Current 4%, 30-90 days 5%, 91-180 days 24%, 180-360 days 87% over 360 days 100%) are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

2023:	Gross	Impairment	Net	Credit Impaired
	KShs'000	KShs'000	KShs'000	
Current	13,796	1,574	12,222	No
Past due:				
30-90 days	12,984	1,662	11,322	No
91-180 days	14,712	7,118	7,594	Yes
180-360 days	14,540	8,862	5,678	Yes
Over 360 days	21,208	21,208	-	Yes
	77,240	**40,424**	**36,816**	

OUR FINANCIALS (Continued)

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4. FINANCIAL RISK MANAGEMENT

(a) Credit risk (Continued)

(ii) Credit quality analysis – trade receivables (Continued)

2022:	Gross	Impairment	Net	Credit Impaired
	KShs'000	KShs'000	KShs'000	
Current	19,223	1,778	17,445	No
Past due:				
30-90 days	11,853	1,333	10,520	No
91-180 days	15,084	6,659	8,425	Yes
180-360 days	36,602	15,331	21,271	Yes
Over 360 days	20,470	20,470	-	Yes
	103,232	**45,571**	**57,661**	

Impairment loss movement on trade receivables

	2023	2022
	KShs '000	KShs '000
At 1 January	45,571	33,309
Write offs	-	(248)
Charge for the year	(5,147)	12,510
At 31 December	**40,424**	**45,571**

Loss rates are based on actual credit loss experience over the past three years. All trade receivables that are past due over 360 days are considered uncollectible and fully impaired. All financial assets that are contractually 90 days in arrears are automatically classified as impaired under IFRS 9. The Group therefore is of the view that due to the short term nature of these instruments, the impact of economic conditions is immaterial. Consequently, the impact of forward looking information has not been taken on these financial statements.

The Risk Management Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes, if they are available; financial statements, credit agency information, industry information and in some cases references from other credible sources. Credit limits are established for each customer and reviewed frequently. Any credit exceeding those limits require approval from the risk management committee.

In addition, the Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of six months for customers. A significant part of the Group's customers have been transacting with the entities.

The Group does not require collateral in respect of trade and other receivables. The Group does not have trade receivable and contract assets for which no loss allowance is recognised because of collateral.

(iii) Credit quality analysis – other assets

The Group has estimated that the ECL for the following financial assets is not material as at 31 December 2023. These financial assets have been assessed to be in Stage 1 (low credit risk) consequently the ECL has not been carried in the books of accounts.

	Group		Company	
	2023	2022	2023	2022
	KShs '000	KShs'000	KShs '000	KShs '000
Balances with central banks (Note 17)	20,003,355	12,714,020	17,138,096	10,595,310
Items in the course of collection (Note 18)	343,983	433,996	316,197	433,996
Loans and advances to banks (Note 19)	44,341,612	10,981,678	41,860,158	9,985,263
Financial assets at fair value through other comprehensive income (FVOCI) - Debt instruments (Note 21)	56,010,179	50,034,300	55,710,597	49,622,300
Other financial assets at amortised cost; Government securities (Note 21)	36,370,658	29,058,219	26,878,671	22,655,837
Due from group companies (Note 27)	2,947,483	782,325	5,172,971	1,009,654
	160,017,270	**104,004,538**	**147,076,690**	**94,302,360**

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT

(a) Credit risk (Continued)

(iv) Collateral and other security enhancements

The Group holds collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimate of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowings activity. Collateral usually is not held against investment securities, and no such collateral was held at 31st December 2023 or 2022.

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

Loans and advances to customers	2023	2022
Group	**KShs '000**	**KShs '000**
Fair value of collateral held – against impaired loans	**23,665,460**	**11,518,618**
Company		
Fair value of collateral held – against impaired loans	**20,560,256**	**9,351,128**

The Group routinely obtains collateral and security to mitigate credit risk. The Group ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed. Before attaching value to collateral, business holding approved collateral must ensure that they are legally perfected. Security structures and legal covenants are subject to regular review, at least annually, to ensure that they remain fit for purpose and remain consistent with accepted local market practice.

The principal collateral types held by the Group for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Valuation of collateral taken will be within agreed parameters and will be conservative in value. The valuation is performed by independent registered valuers only on origination or in the course of enforcement actions. Within the corporate sectors, collateral for impaired loans including guarantees and insurance is reviewed regularly and at least annually to ensure that it is still enforceable, and that the impairment allowance remains appropriate given the current valuation. The Group will consider all relevant factors, including local market conditions and practices, before any collateral is realized

Group maximum credit risk exposure

2023	Exposure relating to on SOFP	Physical collateral	Cash collateral	Other	Net Exposure
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with central banks	24,124,036	-	-	-	24,124,036
Financial assets at fair value through other comprehensive income	56,010,179	-	-	-	56,010,179
Financial assets at fair value through profit or loss	738,185	-	-	-	738,185
Loans and advances to banks	44,341,612	-	-	-	44,341,612
Other assets	3,959,856	-	-	-	3,959,856
Loans and advances to customers	259,374,033	83,031,014	39,242,420	80,366,399	56,734,200
Credit exposures relating to off-balance sheet items	121,214,587	34,423,825	17,773,638	38,288,267	30,728,857
Due from group companies	2,947,483	-	-	-	2,947,483
	512,709,971	**117,454,839**	**57,016,058**	**118,654,666**	**219,584,408**

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
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4. FINANCIAL RISK MANAGEMENT
(a) Credit risk (Continued)
(iv) Collateral and other security enhancements (Continued)

Group maximum credit risk exposure (continued)

2022	Exposure relating to on SOFP	Physical collateral	Cash collateral	Other	Net Exposure
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with central banks	15,966,304	-	-	-	15,966,304
Financial assets at fair value through other comprehensive income	50,034,300	-	-	-	50,034,300
Financial assets at fair value through profit or loss	15,080,925	-	-	-	15,080,925
Loans and advances to banks	10,981,678	-	-	-	10,981,678
Other assets	353,305	-	-	-	353,305
Loans and advances to customers	203,355,150	79,576,705	15,665,376	58,992,792	49,120,277
Credit exposures relating to off-balance sheet items	85,926,714	29,464,370	6,182,247	25,532,979	24,747,118
Due from group companies	782,325	-	-	-	782,325
	382,480,701	109,041,075	21,847,623	84,525,771	167,066,232

Company maximum credit risk exposure

2023	Exposure relating to on SOFP	Physical collateral	Cash collateral	Other	Net Exposure
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with central banks	20,884,419	-	-	-	20,884,419
Financial assets at fair value through other comprehensive income	55,710,597	-	-	-	55,710,597
Financial assets at fair value through profit or loss	538,513	-	-	-	538,513
Loans and advances to banks	41,860,158	-	-	-	41,860,158
Other assets	3,481,960	-	-	-	3,481,960
Loans and advances to customers	240,022,910	69,404,882	35,637,497	72,352,079	62,628,452
Credit exposures relating to off-balance sheet items	114,751,754	33,200,071	17,047,323	34,609,873	29,894,487
Due from group companies	5,172,971	-	-	-	5,172,971
	482,423,282	102,604,953	52,684,820	106,961,952	220,171,557

2022	Exposure relating to on SOFP	Physical collateral	Cash collateral	Other	Net Exposure
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with central banks	12,978,570	-	-	-	12,978,570
Financial assets at fair value through other comprehensive income	49,622,300	-	-	-	49,622,300
Financial assets at fair value through profit or loss	15,080,925	-	-	-	15,080,925
Loans and advances to banks	9,985,263	-	-	-	9,985,263
Other assets	3,338,641	-	-	-	3,338,641
Loans and advances to customers	197,622,284	69,696,792	14,365,084	53,487,407	60,073,001
Credit exposures relating to off-balance sheet items	79,365,800	27,990,475	5,769,068	21,480,730	24,125,527
Due from group companies	1,009,654	-	-	-	1,009,654
	369,003,437	97,687,267	20,134,152	74,968,137	176,213,881

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT
(a) Credit risk (Continued)
(v) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(f)(iii).

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

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

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

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

Credit risk grading
Other than for loans and advances to banks and investment securities where the Group relies on internal credit rating models, the Group relies substantially macroeconomic variables and historic data in the market it operates in for credit risk grading that reflect its assessment of the probability of default of individual counterparties.

In addition, the prudential guidelines are supplemented

- by Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures.
- External data such as credit bureau scoring information on individual borrowers.
- Expert judgement from the Credit Risk Officer to be fed into the final credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

The following are additional considerations for each type of portfolio held by the Group:

Customer loans and advances
After the date of initial recognition, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. A relationship manager will also incorporate any updated or new information/credit assessments into the credit system on an ongoing basis.

Generating the term structure of PD
Credit risk grades are a primary input into the determination of the term structure of PD for loans and advances. The Group collects performance and default information about its credit risk exposures analysed by country and borrower as well as by credit risk grading.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and exchange rate.

Based on advice from the Risk Committees and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Generating the term structure of PD (continued)
The Group has applied a simpler methodology (lifetime ECL) for its other exposures including lease receivables and trade receivables.

Modified financial assets
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(f)(v).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

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

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behaviour over a period of time (at least 12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

During the year, the Group has offered various forms of assistance to customers. The assistance included arrangements such as temporary deferral of principal and interest repayments, replacing principal and interest with interest only repayments, and extension of loan maturity dates. Refer to Key Judgements and Estimates in this Note for details of the impact of deferrals when determining if there has been a Significant Increase in Credit Risk (SICR).

The loan repayment deferral package is considered to be a loan modification under IFRS 9. This either results in the loan being derecognised and replaced with a new loan (substantial modification) or the existing loan continuing to be recognised (non-substantial modification). The table below shows the outstanding balance as at 31 December 2023 of all loans that have been modified (both substantial and non-substantial modifications):

	2023		2022	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Assistance package category				
Loan deferral package				
Corporate & Institutional Banking	7,300,099	7,249,472	13,232,262	11,806,015
Business Banking	448,557	448,557	857,610	857,610
Premium Banking	133,397	133,397	49,220	49,220
Personal Banking	1,762	1,762	36,354	36,354
Interest only				
Corporate & Institutional Banking	1,526,728	1,526,728	4,177,293	4,146,444
Business Banking	445,561	445,561	405,473	405,473
Premium Banking	52,613	52,613	74,753	74,753
Personal Banking	12,014	12,014	-	-
Term extensions				
Corporate & Institutional Banking	1,038,168	1,038,168	4,045,400	4,045,400
Business Banking	157,839	157,839	58,013	58,013
Premium Banking	3,246	3,246	-	-
Personal Banking	-	-	-	-
Total				
Corporate Institutional Banking	**9,864,995**	**9,814,368**	**21,454,955**	**19,997,859**
Business Banking	**1,051,957**	**1,051,957**	**1,321,096**	**1,321,096**
Premium Banking	**189,256**	**189,256**	**123,973**	**123,973**
Personal Banking	**13,776**	**13,776**	**36,354**	**36,354**
	11,119,984	**11,069,357**	**22,936,378**	**21,479,282**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT
(a) Credit risk (Continued)
(v) Amounts arising from ECL (Continued)

Modified financial assets (Continued)

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial. This assessment considers both changes in cash flows arising from the modified terms as well as changes in the overall instrument risk profile; for example, changes in the principal (credit limit), term, or type of underlying collateral. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine SICR. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine SICR for this new asset.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

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

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

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward-looking information

For banking subsidiaries, the Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the respective countries` Board Credit Committee (BCC) and consideration of a variety of external actual and forecast information, the banking subsidiaries formulate a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios.

This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the International Monetary Fund (IMF), World Bank and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the banking subsidiaries carry out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The banking subsidiaries have identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

In each country, the Banking Industry non-performing loans (NPL%) was a reasonable approximation to the default risk. The correlation between the Banking Industry non-performing loans (NPL%) with the macroeconomic factors was then inferred to the Bank's predicated Probabilities of Default.

Further, in determining the economic scenarios to be applied, each of the economic variable was adjusted either upside or downside using the historical standard deviation.

In determining the likelihood of each of the macroeconomic scenarios based on sectors, a weighting of 63% (base case), 21% (upside case) and 17% (downside case) was applied for Kenya.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT
(a) Credit risk (Continued)
(v) Amounts arising from ECL (Continued)
Incorporation of forward-looking information (Continued)

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

The economic scenarios used as at 31 December 2023 included the following ranges of key indicators based on sectors;

Agriculture		Weighting		
	Coefficients	Base	Upside	Downside
		63%	**21%**	**17%**
Central Bank Rate	33.96840	12.88%	13.53%	12.23%
GDP	(7.00500)	4.61%	3.88%	5.33%
Constant	(5.16420)	-	-	-

Building & Construction		Weighting		
	Coefficients	Base	Upside	Downside
		63%	**21%**	**17%**
Three Sixty-Four-day T-bills	11.55120	13.76%	14.85%	12.67%
Inflation	6.97240	6.84%	7.84%	5.84%
Constant	(3.30380)	-	-	-

Financial Services		Weighting		
	Coefficients	Base	Upside	Downside
		63%	**21%**	**17%**
Central Bank Rate	17.51410	11.94%	12.59%	11.30%
GDP	(3.01930)	4.61%	3.88%	5.33%
Constant	(3.35450)	-	-	-

Mining & Quarrying		Weighting		
	Coefficients	Base	Upside	Downside
		63%	**21%**	**17%**
Inflation	15.97420	6.84%	7.84%	5.84%
GDP	(7.05390)	4.61%	3.88%	5.33%
Constant	(3.80050)	-	-	-

Transport & Communication		Weighting		
	Coefficients	Base	Upside	Downside
		63%	**21%**	**17%**
Three Sixty-Four-day T-bills	16.09630	14.67%	15.76%	13.57%
Constant	(3.98150)	-	-	-

Wholesale & Retail Trade		Weighting		
	Coefficients	Base	Upside	Downside
		63%	**21%**	**17%**
Three Sixty-Four-day T-bills	14.37680	13.99%	15.08%	12.90%
Constant	(3.58050)	-	-	-

Some sectors did not have correlations with macro-economic factors. These include Energy & Water, Manufacturing, Personal & Household, Real Estate and Tourism, Hotels & Restaurants. For these sectors, either NPL ratios were noted as 0% or models failed to meet the predetermined thresholds. In view of this, management judgements were applied by taking a minimum PD of 0.05% for purposes of ECL calculation and adjusting by the average macro adjustments from Building & Construction and Mining & Quarrying sectors respectively.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative, or political changes, have been considered, but are not deemed to have a material impact on therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

OUR FINANCIALS (Continued)
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4. FINANCIAL RISK MANAGEMENT
(a) Credit risk (Continued)
(v) Amounts arising from ECL (Continued)
Incorporation of forward-looking information (Continued)

In determining the likelihood of each of the macroeconomic scenarios based on sectors, a weighting of 58% (base case), 30% (upside case) and 13% (downside case) was applied for Tanzania.

Agriculture		Weighting		
	Coefficient/ sensitivity	Base	Upside	Downside
		%	%	%
Weighting		**58%**	**30%**	**13%**
Interbank rate	67.2850	2.49%	2.73%	2.25%
Public Debt to GDP	38.4550	34.96%	35.27%	34.65%
Constant rate	(17.3590)			

Hotel & Restaurant		Weighting		
	Coefficient/ sensitivity	Base	Upside	Downside
		%	%	%
Weighting		**58%**	**30%**	**13%**
Interbank rate	36.9230	2.43%	2.67%	2.19%
Savings rate	(67.5410)	7.25%	7.51%	6.99%
Constant rate	2.8960			

Trade		Weighting		
	Coefficient/ sensitivity	Base	Upside	Downside
		%	%	%
Weighting		**58%**	**30%**	**13%**
Interbank rate	14.1460	2.43%	2.67%	2.19%
Public debt to GDP	71.1550	35.53%	35.84%	35.22%
Constant rate	(29.3990)			

Services		Weighting		
	Coefficient/ sensitivity	Base	Upside	Downside
		%	%	%
Weighting		**58%**	**30%**	**13%**
Interbank rate	170.8519	7.26%	7.00%	7.52%
Constant rate	(7.7881)			

Personal Loan		Weighting		
	Coefficient/ sensitivity	Base	Upside	Downside
		%	%	%
		58%	**30%**	**13%**
364 Day T-bills	27.9922	7.87%	8.79%	6.95%
Constant	(5.1235)	-	-	-

Some sectors did not have an intuitive relationship with macro-economic factors and had weak correlations. These include: Housing, Transport & Communication, Mining & Quarrying, Other Services, Tourism, Agriculture, Education and Hotels & Restaurants. For these sectors, an average adjustment of sectors with intuitive relationship with macroeconomic factors and credit conversion above 40% was used to adjust Historical PDs.

Other Sectors had no historical default rates and historical PDs were noted as 0%. This included Education, Agriculture (Stage 2) and tourism restaurant and hotels (Stage 2). In view of this, management judgements were applied by taking a minimum PD of 0.05% for purposes of ECL calculation.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Measurement of ECL

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

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors.

Where it is available, market data may also be used to derive the PD for loans and advances to LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based mainly on the counterparties' collateral and also on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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

- segment type;
- credit risk grading; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

ECL - Sensitivity analysis

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Group should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at 31 December 2023:

	2023		2022	
Group	ECL KShs '000	Impact KShs '000	ECL KShs '000	Impact KShs '000
If 1% of stage 1 facilities were included in Stage 2	2,666,266	180,044	3,692,277	294,672
If 1% of stage 2 facilities were included in Stage 1	2,474,405	(11,818)	3,366,870	(30,733)
100% upside scenario	2,194,297	(291,926)	3,359,928	(37,676)
100% base scenario	2,510,050	(27,047)	3,380,521	(17,083)
100% downside scenario	2,855,856	369,634	3,415,880	18,276

OUR FINANCIALS (Continued)

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4. FINANCIAL RISK MANAGEMENT

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

ECL - Sensitivity analysis (Continued)

	2023		2022	
Company	ECL KShs '000	Impact KShs '000	ECL KShs '000	Impact KShs '000
If 1% of stage 1 facilities were included in Stage 2	2,619,635	177,245	3,679,033	294,323
If 1% of stage 2 facilities were included in Stage 1	2,430,766	(11,624)	3,354,011	(30,698)
100% upside scenario	2,143,224	(299,166)	3,346,526	(38,183)
100% base scenario	2,467,827	(25,437)	3,367,819	(16,891)
100% downside scenario	2,821,380	378,990	3,403,877	19,168

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3(f)(iii).

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
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4. FINANCIAL RISK MANAGEMENT
(a) Credit risk (Continued)
(v) *Amounts arising from ECL (Continued)*

Loans and advances to customers at amortised cost

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2023	**228,775**	**3,317,171**	**11,862,428**	**15,408,374**	**172,001,551**	**23,380,927**	**23,381,046**	**218,763,524**
Transfer from 12 months ECL (Stage 1)	(28,018)	19,272	8,746	-	(14,492,277)	11,022,631	3,469,646	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	61,266	(261,404)	200,138	-	3,466,784	(16,190,307)	12,723,523	-
Transfer from Lifetime ECL credit impaired (Stage 3)	15,896	18,808	(34,704)	-	169,529	201,843	(371,372)	-
Net remeasurement of loss allowance	528,392	(1,917,527)	6,868,522	**5,479,387**	22,909,124	3,383,054	4,686,817	**30,978,995**
New financial assets originated or purchased	254,106	77,472	223,198	**554,776**	37,210,270	805,097	554,247	**38,569,614**
Financial assets derecognised	(11,410)	(19,612)	(22,732)	**(53,754)**	(7,360,517)	(1,681,973)	(887,370)	**(9,929,860)**
Write off	-	-	(10,626,570)	**(10,626,570)**	-	-	(11,682,069)	**(11,682,069)**
Translation difference	7,281	24,360	412,498	**444,139**	2,777,015	420,650	682,516	**3,880,181**
Balance at 31 December 2023	**1,056,288**	**1,258,540**	**8,891,524**	**11,206,352**	**216,681,479**	**21,341,922**	**32,556,984**	**270,580,385**

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2022	**492,037**	**1,739,504**	**9,222,767**	**11,454,308**	**150,305,669**	**20,454,590**	**20,253,197**	**191,013,456**
Transfer from 12 months ECL (Stage 1)	(30,373)	26,698	3,675	-	(12,747,844)	9,852,113	2,895,731	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	200,099	(350,336)	150,237	-	6,556,547	(10,020,361)	3,463,814	-
Transfer from Lifetime ECL credit impaired (Stage 3)	22,590	376,718	(399,308)	-	415,734	1,598,228	(2,013,962)	-
Net remeasurement of loss allowance	(473,410)	1,477,068	4,461,952	**5,465,610**	13,434,338	1,278,243	551,766	**15,264,347**
New financial assets originated or purchased	38,649	37,647	162,383	**238,679**	18,101,050	903,199	181,066	**19,185,315**
Financial assets derecognised	(21,784)	(9,311)	(230,778)	**(261,873)**	(4,974,246)	(1,062,470)	(170,442)	**(6,207,158)**
Write off	-	-	(1,612,436)	**(1,612,436)**	-	-	(1,910,375)	**(1,910,375)**
Translation difference	967	19,183	103,936	**124,086**	910,303	377,385	130,251	**1,417,939**
Balance at 31 December 2022	**228,775**	**3,317,171**	**11,862,428**	**15,408,374**	**172,001,551**	**23,380,927**	**23,381,046**	**218,763,524**

OUR FINANCIALS (Continued)

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4. FINANCIAL RISK MANAGEMENT

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loans and advances to customers at amortised cost (Continued)

Company	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2023	**219,206**	**3,077,974**	**10,311,214**	**13,608,394**	**156,870,933**	**21,089,009**	**19,662,342**	**197,622,284**
Transfer from 12 months ECL (Stage 1)	(27,910)	19,271	8,639	-	(13,530,278)	10,080,220	3,450,058	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	61,265	(261,403)	200,138	-	2,893,085	(14,898,958)	12,005,873	-
Transfer from Lifetime ECL credit impaired (Stage 3)	13,890	18,808	(32,698)	-	38,563	201,843	(240,406)	-
Net remeasurement of loss allowance	464,557	(1,683,359)	5,348,133	**4,129,331**	23,650,502	1,772,726	2,657,316	**28,080,544**
New financial assets originated or purchased	252,216	75,781	223,197	**551,194**	30,624,131	715,370	554,247	**31,893,748**
Financial assets derecognised	(10,502)	(14,904)	(22,731)	**(48,137)**	(5,662,224)	(961,572)	(887,370)	**(7,511,166)**
Write off	-	-	(9,456,588)	**(9,456,588)**	-	-	(10,062,501)	**(10,062,501)**
Balance at 31 December 2023	**972,722**	**1,232,168**	**6,579,304**	**8,784,194**	**194,884,712**	**17,998,638**	**27,139,559**	**240,022,909**

Company	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2022	**476,930**	**1,463,493**	**8,528,906**	**10,469,329**	**138,494,011**	**15,557,819**	**18,563,142**	**172,614,972**
Transfer from 12 months ECL (Stage 1)	(29,188)	26,424	2,764	-	(11,127,782)	9,443,001	1,684,781	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	200,099	(350,336)	150,237	-	5,550,304	(7,577,697)	2,027,393	-
Transfer from Lifetime ECL credit impaired (Stage 3)	22,591	376,716	(399,307)	-	415,734	1,598,228	(2,013,962)	-
Net remeasurement of loss allowance	(467,293)	1,533,340	3,101,976	**4,168,023**	12,521,624	1,529,254	552,479	**14,603,357**
New financial assets originated or purchased	37,851	37,647	162,383	**237,881**	15,991,287	883,840	181,066	**17,056,193**
Financial assets derecognised	(21,784)	(9,310)	(110,723)	**(141,817)**	(4,974,245)	(345,436)	(170,442)	**(5,490,123)**
Write off	-	-	(1,125,022)	**(1,125,022)**	-	-	(1,162,115)	**(1,162,115)**
Balance at 31 December 2022	**219,206**	**3,077,974**	**10,311,214**	**13,608,394**	**156,870,933**	**21,089,009**	**19,662,342**	**197,622,284**

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT

(a) Credit risk (Continued)

(v) *Amounts arising from ECL (Continued)*

Loan commitments and financial guarantee contracts

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2023	**66,012**	**23,821**	**60,188**	**150,021**	**82,295,522**	**3,181,629**	**449,563**	**85,926,714**
Transfer from 12 months ECL (Stage 1)	(1,548)	1,506	42	-	(2,340,457)	2,058,512	281,945	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	10,172	(10,859)	687	-	1,523,882	(1,558,177)	34,295	-
Transfer from Lifetime ECL credit impaired (Stage 3)	4,025	-	(4,025)	-	7,000	-	(7,000)	-
Net remeasurement of loss allowance	105,366	14,104	(123)	**119,347**	5,303,428	(360,427)	(60,189)	**4,882,812**
New financial assets originated or purchased	60,476	1,412	-	**61,888**	43,053,051	60,666	25,169	**43,138,886**
Financial assets derecognised	(14,757)	(10,419)	(11,481)	**(36,657)**	(12,458,999)	(1,179,685)	(299,305)	**(13,937,989)**
Translation difference	113	1,110	-	**1,223**	1,202,512	1,652	-	**1,204,164**
Balance at 31 December 2023	**229,859**	**20,675**	**45,288**	**295,822**	**118,585,939**	**2,204,170**	**424,478**	**121,214,587**

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2022	**208,818**	**12,168**	**20,570**	**241,556**	**87,129,055**	**608,689**	**124,131**	**87,861,875**
Transfer from 12 months ECL (Stage 1)	(28,689)	6,594	22,095	-	(3,233,509)	2,858,436	375,073	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	8	(8)	-	-	382,059	(382,059)	-	-
Transfer from Lifetime ECL credit impaired (Stage 3)	-	-	-	-	95,030	-	(95,030)	-
Net remeasurement of loss allowance	(79,652)	4,310	16,671	**(58,671)**	6,700,980	(121,802)	54,335	**6,633,513**
New financial assets originated or purchased	224	231	852	**1,307**	1,410,237	221,931	20,154	**1,652,322**
Financial assets derecognised	(34,700)	(7)	-	**(34,707)**	(10,761,875)	(7,036)	(29,100)	**(10,798,011)**
Translation difference	3	533	-	**536**	573,545	3,470	-	**577,015**
Balance at 31 December 2022	**66,012**	**23,821**	**60,188**	**150,021**	**82,295,522**	**3,181,629**	**449,563**	**85,926,714**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT
(a) Credit risk (Continued)
(v) Amounts arising from ECL (Continued)

Loan commitments and financial guarantee contracts (Continued)

Company	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2023	**65,980**	**21,549**	**60,188**	**147,717**	**75,743,608**	**3,172,629**	**449,563**	**79,365,800**
Transfer from 12 months ECL (Stage 1)	(1,548)	1,506	42	-	(2,340,457)	2,058,512	281,945	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	10,172	(10,859)	687	-	1,523,882	(1,558,177)	34,295	-
Transfer from Lifetime ECL credit impaired (Stage 3)	4,025	-	(4,025)	-	7,000	-	(7,000)	-
Net remeasurement of loss allowance	104,102	5,858	(123)	**109,837**	6,658,862	(413,616)	(60,189)	**6,185,057**
New financial assets originated or purchased	60,476	1,412	-	**61,888**	43,053,051	60,666	25,169	**43,138,886**
Financial assets derecognised	(14,755)	(10,417)	(11,481)	**(36,653)**	(12,458,999)	(1,179,685)	(299,305)	**(13,937,989)**
Balance at 31 December 2023	**228,452**	**9,049**	**45,288**	**282,789**	**112,186,947**	**2,140,329**	**424,478**	**114,751,754**

Company	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2022	**208,789**	**437**	**20,570**	**229,796**	**79,687,003**	**563,669**	**124,131**	**80,374,803**
Transfer from 12 months ECL (Stage 1)	(28,689)	6,594	22,095	-	(3,233,509)	2,858,436	375,073	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	8	(8)	-	-	382,059	(382,059)	-	-
Transfer from Lifetime ECL credit impaired (Stage 3)	-	-	-	-	95,030	-	(95,030)	-
Net remeasurement of loss allowance	(79,652)	14,300	16,671	**(48,681)**	8,164,663	(82,312)	54,335	**8,136,686**
New financial assets originated or purchased	224	231	852	**1,307**	1,410,237	221,931	20,154	**1,652,322**
Financial assets derecognised	(34,700)	(5)	-	**(34,705)**	(10,761,875)	(7,036)	(29,100)	**(10,798,011)**
Balance at 31 December 2022	**65,980**	**21,549**	**60,188**	**147,717**	**75,743,608**	**3,172,629**	**449,563**	**79,365,800**

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT

(b) Liquidity risk

The definition of liquidity risk is the risk that the Group is unable to meet its obligations as they fall due as a result of a sudden, and potentially protracted, increase in net cash outflows. Such outflows would deplete available cash resources for customer lending, trading activities and investments.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Asset and Liabilities Committee. The Asset and Liabilities Committee (ALCO) also monitors the liquidity gap and at first instance would source funds from market using interbank borrowings and as a last resort, use repo and reverse repo arrangements with the central banks. The Group has also arranged for long term funding as disclosed under Note 32 and Note 33.

The liquidity ratios at the reporting date and during the reporting period (based on month end ratios) were as follows:

	Kenya		Tanzania	
	2023	2022	2023	2022
At 31 December	39%	39%	29%	26%
Average for the period	42%	42%	35%	29%
Highest for the period	47%	47%	27%	32%
Lowest for the period	39%	39%	23%	24%

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2023 and 2022. The amounts are gross and undiscounted.

Group 31 December 2023	Contractual cash flow						
	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000	Carrying Value KShs'000
LIABILITIES							
Deposits from banks	830,873	16,643,940	4,797,349	-	-	**22,272,162**	**21,629,821**
Deposits from customers	128,238,355	127,180,024	81,327,983	9,805,813	-	**346,552,175**	**341,154,590**
Due to group companies	7,144,886	-	-	-	-	**7,144,886**	**4,699,449**
Other liabilities	1,133,984	4,100,452	523,449	-	-	**5,757,885**	**5,824,471**
Long term debt	-	-	-	247,421	-	**247,421**	**204,921**
Subordinated debt	-	-	406,924	5,285,852	10,872,250	**16,565,026**	**12,532,190**
Contractual off-balance sheet financial liabilities	-	-	171,552,054	-	-	**171,552,054**	**171,552,054**
Capital commitments	-	-	2,406,152	-	-	**2,406,152**	**2,406,152**
Lease liabilities	41,535	87,868	213,095	1,028,958	360,945	**1,732,401**	**2,098,743**
Balance at 31 December 2023	**137,389,633**	**148,012,284**	**261,227,006**	**16,368,044**	**11,233,195**	**574,230,162**	**562,102,391**

Group 31 December 2022	Contractual cash flow						
	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000	Carrying Value KShs'000
LIABILITIES							
Deposits from banks	44,389	9,496,131	1,635,846	523,636	-	**11,700,002**	**11,182,714**
Deposits from customers	86,121,631	96,322,326	69,983,392	10,007,506	-	**262,434,855**	**257,841,512**
Due to group companies	-	1,936,162	-	-	-	**1,936,162**	**1,732,442**
Other liabilities	1,770,566	3,467,575	131,139	-	-	**5,369,280**	**5,444,455**
Long term debt	-	-	1,444,525	207,382	-	**1,651,907**	**1,563,943**
Subordinated debt	-	263,931	-	4,152,930	8,541,988	**12,958,849**	**9,800,069**
Contractual off-balance sheet financial liabilities	-	-	128,032,135	-	-	**128,032,135**	**128,032,135**
Capital commitments	-	-	1,392,334	-	-	**1,392,334**	**1,392,334**
Lease liabilities	32,829	67,044	157,570	620,952	235,305	**1,113,700**	**1,113,700**
Balance at 31 December 2022	**87,969,415**	**111,553,169**	**202,776,941**	**15,512,406**	**8,777,293**	**426,589,224**	**418,103,304**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
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4. FINANCIAL RISK MANAGEMENT
(b) Liquidity risk (Continued)

Company 31 December 2023	Contractual cash flow						Carrying Value KShs'000
	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000	
LIABILITIES							
Deposits from banks	830,873	15,379,984	4,797,349	-	-	**21,008,206**	**20,570,517**
Deposits from customers	119,022,331	119,691,430	65,978,332	5,647,070	-	**310,339,163**	**305,995,191**
Due to group companies	5,106,707	-	-	-	-	**5,106,707**	**5,087,206**
Other liabilities	770,066	3,902,771	-	-	-	**4,672,837**	**4,672,837**
Subordinated debt	-	-	406,924	5,285,852	10,872,250	**16,565,026**	**12,532,190**
Contractual off-balance sheet financial liabilities	-	-	165,089,221	-	-	**165,089,221**	**165,089,221**
Capital commitments	-	-	1,634,544	-	-	**1,634,544**	**1,634,544**
Lease liabilities	19,379	58,757	180,340	964,924	360,945	**1,584,345**	**1,584,345**
Balance at 31 December 2023	**125,749,356**	**139,032,942**	**238,086,710**	**11,897,846**	**11,233,195**	**526,000,049**	**517,166,051**

Company 31 December 2022	Contractual cash flow						Carrying Value KShs'000
	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000	
LIABILITIES							
Deposits from banks	44,389	7,785,662	1,635,846	523,636	-	**9,989,533**	**9,715,491**
Deposits from customers	78,777,481	90,503,951	61,878,216	6,493,677	-	**237,653,325**	**233,806,796**
Due to group companies	-	1,936,162	-	-	-	**1,936,162**	**1,914,149**
Other liabilities	1,377,885	3,377,767	-	-	-	**4,755,652**	**4,755,652**
Long term debt	-	-	914,847	-	-	**914,847**	**884,444**
Subordinated debt	-	263,931	-	4,152,930	8,541,988	**12,958,849**	**9,800,069**
Contractual off-balance sheet financial liabilities	-	-	121,471,221	-	-	**121,471,221**	**165,089,221**
Capital commitments	-	-	1,248,365	-	-	**1,248,365**	**1,634,544**
Leases	**14,109**	**42,272**	**128,116**	**566,848**	**235,305**	**986,650**	**884,444**
Balance at 31 December 2022	80,213,864	103,909,745	187,276,611	11,737,091	8,777,293	391,914,604	428,484,810

Deposits from customers represent transactional accounts, savings accounts, call and fixed deposit balances, which past experience has shown to be stable.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spread (not relating to changes in the obligator's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments.

All trading instruments are subject to market risk, the risk that the future changes in market conditions may make an instrument less valuable or more onerous. The Group manages its use of trading instruments in response to changing market conditions. The Board of Directors of the individual Group entities have delegated responsibility for management of Market Risk to their respective Board Risk Committees. Exposure to market risk is formally managed within Risk Limits and Policy Guidelines issued by the Board, on recommendation of the Board Risk Committee. ALCO, a Management Committee is charged with the responsibility of ensuring implementation and monitoring of the risk management framework in line with policy guidelines. The Group is primarily exposed to Interest Rate and Foreign Exchange Risk. The policy guidelines and procedures in place are adequate to effectively manage these risks.

Exposure to interest rate risk

This is the risk of loss from fluctuations in the future cash flows of fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the Group's interest rate gap position reflecting assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates is shown below.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

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4. FINANCIAL RISK MANAGEMENT

(c) Market risk (Continued)

Exposure to interest rate risk(Continued)

Group 31 December 2023	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with central banks	-	-	-	-	-	24,124,036	**24,124,036**
Items in the course of collection	-	-	-	-	-	343,983	**343,983**
Loans and advances to banks	20,742,413	22,952,196	647,003	-	-	-	**44,341,612**
Loans and advances to customers	6,409,562	230,182,547	8,766,944	12,516,972	1,498,008	-	**259,374,033**
Financial assets at fair value through profit or loss (FVTPL)	-	-	538,512	199,673	-	-	**738,185**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	491,502	4,227,408	11,296,989	39,834,564	159,716	**56,010,179**
Other financial assets at amortised cost	474,657	2,867,095	6,376,490	12,094,021	14,595,211	-	**36,407,474**
Due from group companies	-	-	-	-	-	2,947,483	**2,947,483**
Other assets	-	-	-	-	-	3,959,856	**3,959,856**
31 December 2023	**27,626,632**	**256,493,340**	**20,556,357**	**36,107,655**	**55,927,783**	**31,535,074**	**428,246,841**
LIABILITIES							
Deposits from banks	633,050	16,386,706	4,610,065	-	-	-	**21,629,821**
Deposits from customers	118,577,701	125,734,082	79,055,148	8,616,707	-	9,170,952	**341,154,590**
Due to group companies	-	-	-	-	-	4,699,449	**4,699,449**
Other liabilities	-	197,680	523,449	-	-	5,103,342	**5,824,471**
Long term debt	-	-	-	204,921	-	-	**204,921**
Subordinated debt	-	12,532,190	-	-	-	-	**12,532,190**
31 December 2023	**119,210,751**	**154,850,658**	**84,188,662**	**8,821,628**	**-**	**18,973,743**	**386,045,442**
Interest rate gap	**(91,584,119)**	**101,642,682**	**(63,632,305)**	**27,286,027**	**55,927,783**	**12,561,331**	**42,201,399**

OUR FINANCIALS (Continued)
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4. FINANCIAL RISK MANAGEMENT
(c) Market risk (Continued)
Exposure to interest rate risk(Continued)

Group 31 December 2022	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with central banks	-	-	-	-	-	15,966,304	**15,966,304**
Items in the course of collection	-	-	-	-	-	433,996	**433,996**
Loans and advances to banks	6,929,725	3,685,199	353,074	13,680	-	-	**10,981,678**
Loans and advances to customers	1,846,237	184,424,975	4,750,405	8,733,124	3,600,409	-	**203,355,150**
Financial assets at fair value through profit or loss (FVTPL)	-	-	739,897	1,833,401	12,507,627	-	**15,080,925**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	-	7,769,661	42,067,566	197,073	**50,034,300**
Other financial assets at amortised cost	684,290	1,986,517	742,099	19,920,624	5,782,350	-	**29,115,880**
Due from group companies	-	-	-	-	-	782,325	**782,325**
Other assets	-	-	-	-	-	3,599,744	**3,599,744**
At 31 December 2022	**9,460,252**	**190,096,691**	**6,585,475**	**38,270,490**	**63,957,952**	**20,979,442**	**329,350,302**
LIABILITIES							
Deposits from banks	44,150	9,128,391	1,571,984	438,189	-	-	**11,182,714**
Deposits from customers	80,202,531	95,227,213	68,027,598	8,793,942	-	5,590,228	**257,841,512**
Due to group companies	-	-	-	-	-	1,732,442	**1,732,442**
Other liabilities	-	89,809	131,139	-	-	5,223,507	**5,444,455**
Long term debt	-	-	1,392,184	171,759	-	-	**1,563,943**
Subordinated debt	-	9,800,069	-	-	-	-	**9,800,069**
At 31 December 2022	**80,246,681**	**114,245,482**	**71,122,905**	**9,403,890**	-	**12,546,177**	**287,565,135**
Interest rate gap	**(70,786,429)**	**75,851,209**	**(64,537,430)**	**28,866,600**	**63,957,952**	**8,433,265**	**41,785,167**

Customer deposits up to three months represent transactional accounts, savings accounts and call deposit account balances, which past experience has shown to be stable and of a long term nature.

The Group's operations are subject to the risk of interest rate fluctuations to the extent that the interest earning assets (including investments) and interest bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Group's business strategies.

OUR FINANCIALS (Continued)
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4. FINANCIAL RISK MANAGEMENT
(c) Market risk (Continued)
Exposure to interest rate risk(Continued)

Company 31 December 2023	Effective interest rate	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS								
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	20,884,419	**20,884,419**
Items in the course of collection	-	-	-	-	-	-	316,197	**316,197**
Loans and advances to banks	4.7%	20,734,336	20,478,819	647,003	-	-	-	**41,860,158**
Loans and advances to customers	11.7%	-	229,308,709	970,808	904,761	54,438	-	**231,238,716**
Financial assets at fair value through profit or loss (FVTPL)	12.4%	-	-	538,513	-	-	-	**538,513**
Financial assets measured at fair value through other comprehensive income (FVOCI)	12.1%	-	491,501	4,227,408	11,296,989	39,694,699	-	**55,710,597**
Other financial assets at amortised cost	11.0%	-	1,522,297	3,863,279	10,902,740	10,590,355	-	**26,878,671**
Due from group companies	-	-	-	-	-	-	5,172,971	**5,172,971**
Other assets	-	-	-	-	-	-	3,481,960	**3,481,960**
31 December 2023		**20,734,336**	**251,801,326**	**10,247,011**	**23,104,490**	**50,339,492**	**29,855,547**	**386,082,202**
LIABILITIES								
Deposits from banks	9.5%	826,396	15,134,056	4,610,065	-	-	-	**20,570,517**
Deposits from customers	5.3%	118,567,821	118,330,628	64,134,466	4,962,276	-	-	**305,995,191**
Due to group companies	-	-	-	-	-	-	5,087,206	**5,087,206**
Other liabilities	-	-	-	-	-	-	4,672,837	**4,672,837**
Subordinated debt	8.2%	-	12,532,190	-	-	-	-	**12,532,190**
31 December 2023		**119,394,217**	**145,996,874**	**68,744,531**	**4,962,276**	**-**	**9,760,043**	**348,857,941**
Interest rate gap		**(98,659,881)**	**105,804,452**	**(58,497,520)**	**18,142,214**	**50,339,492**	**20,095,504**	**37,224,261**

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT

(c) Market risk (Continued)

Exposure to interest rate risk(Continued)

Company 31 December 2022	Effective interest rate	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS								
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	12,978,570	**12,978,570**
Items in the course of collection	-	-	-	-	-	-	433,996	**433,996**
Loans and advances to banks	1.7%	6,426,222	3,211,505	347,536	-	-	-	**9,985,263**
Loans and advances to customers	10.4%	-	181,583,198	641,590	732,650	1,056,452	-	**184,013,890**
Financial assets at fair value through profit or loss (FVTPL)	-	-	-	739,897	1,833,401	12,507,627	-	**15,080,925**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	-	-	7,769,662	41,852,638	-	**49,622,300**
Other financial assets at amortised cost		-	996,425	-	18,585,998	3,073,414	-	**22,655,837**
Due from group companies	-	-	-	-	-	-	1,009,654	**1,009,654**
Other assets	-	-	-	-	-	-	3,338,641	**3,338,641**
At 31 December 2022		**6,426,222**	**185,791,128**	**1,729,023**	**28,921,711**	**58,490,131**	**17,760,861**	**299,119,076**
LIABILITIES								
Deposits from banks	5.9%	44,150	7,661,168	1,571,984	438,189	-	-	**9,715,491**
Deposits from customers	3.7%	78,476,654	89,474,989	60,148,934	5,706,219	-	-	**233,806,796**
Due to group companies	-	-	-	-	-	-	1,914,149	**1,914,149**
Other liabilities	-	-	-	-	-	-	4,755,652	**4,755,652**
Long term debt	-	-	-	884,444	-	-	-	**884,444**
Subordinated debt	**12.5%**	-	**9,800,069**	-	-	-	-	**9,800,069**
At 31 December 2022		**78,520,804**	**106,936,226**	**62,605,362**	**6,144,408**	-	**6,669,801**	**260,876,601**
Interest rate gap		**(72,094,582)**	**78,854,902**	**(60,876,339)**	**22,777,303**	**58,490,131**	**11,091,060**	**38,242,475**

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT

(c) Market risk (Continued)

Exposure to interest rate risk(Continued)

Customer deposits up to three months represent current, savings and call deposit account balances, which past experience has shown to be stable and of a long term nature.

The Group's operations are subject to the risk of interest rate fluctuations to the extent that the interest earning assets (including investments) and interest bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Group's business strategies.

Sensitivity analysis

A change of 200 basis points in interest rates at the reporting date would have increased/decreased equity and profit or loss by the amounts shown below. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

Group

31 December 2023 200 basis points	Profit or loss Increase/decrease in basis points Kshs '000	Equity net of tax Increase/decrease in basis points Kshs '000
Assets	7,934,235	5,553,965
Liabilities	(7,341,434)	(5,139,004)
Net position	**592,801**	**414,961**

31 December 2022	Profit or loss	Equity net of tax
Assets	6,167,417	4,317,192
Liabilities	(5,500,379)	(3,850,265)
Net position	**667,038**	**466,927**

Company

31 December 2023 200 basis points	Profit or loss Increase/decrease in basis points Kshs '000	Equity net of tax Increase/decrease in basis points Kshs '000
Assets	7,124,533	4,987,173
Liabilities	(6,781,958)	(4,747,371)
Net position	**342,575**	**239,802**

31 December 2022	Profit or loss	Equity net of tax
Assets	5,627,164	3,939,015
Liabilities	(5,084,136)	(3,558,895)
Net position	**543,028**	**380,120**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT
(c) Market risk (Continued)

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies which the Group is exposed to as at 31st December 2023 and 31st December 2022.

Group 31 December 2023	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with central banks	7,469,530	692,625	780,784	64,243	9,007,182
Items in the course of collection	59,362	-	862	-	60,224
Loans and advances to banks	36,291,595	3,546,638	1,475,983	56,164	41,370,380
Loans and advances to customers	82,840,687	3,913,010	8,882,860	983	95,637,540
Other financial assets at amortised cost	21,077,972	-	-	-	21,077,972
Due from group companies	1,748,371	-	-	-	1,748,371
Other assets	9,159,548	320,026	227,879	24	9,707,477
At 31 December 2023	**158,647,065**	**8,472,299**	**11,368,368**	**121,414**	**178,609,146**
LIABILITIES					
Deposits from banks	4,489,451	34,780	581,923	73	5,106,227
Deposits from customers	139,168,269	9,882,906	4,558,750	50,645	153,660,570
Other liabilities	430,879	15,208	10,708	24,108	480,903
Due to group companies	12,532,190	-	-	-	12,532,190
Long-term debt	1,033,398	-	6,265	-	1,039,663
Subordinated debt	6,612,366	342,113	247,780	7,823	7,210,082
At 31 December 2023	**164,266,553**	**10,275,007**	**5,405,426**	**82,649**	**180,029,635**
Net on balance sheet position	**(5,619,488)**	**(1,802,708)**	**5,962,942**	**38,765**	**(1,420,489)**
Net notional off balance sheet position	**4,803,649**	**1,903,452**	**(5,908,278)**	**10,328**	**809,151**
Overall net position – 2023	**(815,839)**	**100,744**	**54,664**	**49,093**	**(611,338)**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT
(c) Market risk (Continued)
Currency risk (Continued)

Group At 31 December 2022	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with central banks	3,541,270	293,791	393,439	12,168	4,240,668
Items in the course of collection	53,750	-	260	-	54,010
Loans and advances to banks	4,254,458	743,584	284,633	1,531,686	6,814,361
Loans and advances to customers	78,401,820	2,065,012	4,176,605	4,165	84,647,602
Other financial assets at amortised cost	16,496,172	-	-	-	16,496,172
Due from group companies	597,940	-	-	43,917	641,857
Other assets	5,554,933	86,944	45,824	19,775	5,707,476
At 31 December 2022	**108,900,343**	**3,189,331**	**4,900,761**	**1,611,711**	**118,602,146**
LIABILITIES					
Deposits from banks	8,655,533	21,663	88,288	20,908	8,786,392
Deposits from customers	81,196,568	8,304,662	3,255,800	1,485,793	94,242,823
Other liabilities	4,644,141	291,464	209,459	21,650	5,166,714
Long-term debt	2,374,629	-	-	-	2,374,629
Subordinated debt	9,800,069	-	-	-	9,800,069
At 31 December 2022	**106,670,940**	**8,617,789**	**3,553,547**	**1,528,351**	**120,370,627**
Net on balance sheet position	**2,229,403**	**(5,428,458)**	**1,347,214**	**83,360**	**(1,768,481)**
Net notional off balance sheet position	**(4,814,617)**	**5,432,299**	**(1,365,683)**	**11,582**	**(736,419)**
Overall net position – 2022	**(2,585,214)**	**3,841**	**(18,469)**	**94,942**	**(2,504,900)**

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT

(c) Market risk (Continued)

Currency risk (Continued)

Company At 31 December 2023	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	5,129,240	590,928	671,332	-	6,391,500
Items in the course of collection	59,362	-	862	-	60,224
Loans and advances to banks	36,291,595	3,546,638	1,475,983	56,164	41,370,380
Loans and advances to customers	64,472,681	3,913,010	8,882,860	983	77,269,534
Other financial assets at amortised cost	21,077,972	-	-	-	21,077,972
Due from group companies	1,748,371	-	-	-	1,748,371
Other assets	9,123,852	320,026	220,249	-	9,664,127
At 31 December 2023	**137,903,073**	**8,370,602**	**11,251,286**	**57,147**	**157,582,108**
LIABILITIES					
Deposits from banks	4,489,451	34,780	581,923	73	5,106,227
Deposits from customers	119,795,638	9,795,721	4,452,438	50,645	134,094,442
Other liabilities	-	-	-	-	-
Due to group companies	12,532,190	-	-	-	12,532,190
Long-term debt	-	-	6,265	-	6,265
Subordinated debt	6,612,366	342,113	247,780	7,823	7,210,082
At 31 December 2023	**143,429,645**	**10,172,614**	**5,288,406**	**58,541**	**158,949,206**
Net on balance sheet position	**(5,526,572)**	**(1,802,012)**	**5,962,880**	**(1,394)**	**(1,367,098)**
Net notional off balance sheet position	**4,803,649**	**1,903,452**	**(5,908,278)**	**10,328**	**809,151**
Overall net position – 2023	**(722,923)**	**101,440**	**54,602**	**8,934**	**(557,947)**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT
(c) Market risk (Continued)
Currency risk (Continued)

Company At 31 December 2022	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	1,370,213	218,708	337,195	2,213	1,928,329
Items in the course of collection	46,926	-	260	-	47,186
Loans and advances to banks	4,254,458	743,584	284,633	1,531,686	6,814,361
Loans and advances to customers	66,638,256	2,065,012	4,176,605	4,165	72,884,038
Other financial assets at amortised cost	16,496,172	-	-	-	16,496,172
Due from group companies	597,940	-	-	43,917	641,857
Other assets	5,551,499	86,935	45,824	-	5,684,258
At 31 December 2022	**94,955,464**	**3,114,239**	**4,844,517**	**1,581,981**	**104,496,201**
LIABILITIES					
Deposits from banks	8,655,533	21,663	88,288	20,908	8,786,392
Deposits from customers	71,458,816	8,236,414	3,196,970	1,485,793	84,377,993
Other liabilities	1,878,024	284,617	213,334	20,566	2,396,541
Long-term debt	888,067	-	-	-	888,067
Subordinated debt	9,800,069	-	-	-	9,800,069
At 31 December 2022	**92,680,509**	**8,542,694**	**3,498,592**	**1,527,267**	**106,249,062**
Net on balance sheet position	**2,274,955**	**(5,428,455)**	**1,345,925**	**54,714**	**(1,752,861)**
Net notional off balance sheet position	**(4,814,617)**	**5,432,299**	**(1,365,683)**	**11,582**	**(736,419)**
Overall net position – 2022	**(2,539,662)**	**3,844**	**(19,758)**	**66,296**	**(2,489,280)**

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

4. FINANCIAL RISK MANAGEMENT

(c) Market risk (Continued)

Currency risk (Continued)

Sensitivity analysis

A reasonable possible strengthening or weakening of the USD, GBP, EUR against the Kenya shilling (KShs) would have affected the measurement of financial instruments denominated in foreign currency and effected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates remain constant.

At 31 December 2023	Profit or loss Strengthening/weakening of currency KShs'000	Equity net of tax Strengthening/weakening of currency KShs'000
USD (± 2.5% movement)	(20,396)	(14,277)
GBP (± 2.5% movement)	2,519	1,763
EUR (± 2.5% movement)	1,367	957

At 31 December 2022	Profit or loss Strengthening/weakening of currency KShs'000	Equity net of tax Strengthening/weakening of currency KShs'000
USD (± 2.5% movement)	(64,630)	(45,241)
GBP (± 2.5% movement)	96	67
EUR (± 2.5% movement)	(462)	(323)

Company

At 31 December 2023	Profit or loss Strengthening/weakening of currency KShs'000	Equity net of tax Strengthening/weakening of currency KShs'000
USD (± 2.5% movement)	(18,073)	(12,651)
GBP (± 2.5% movement)	2,536	1,775
EUR (± 2.5% movement)	1,365	956

At 31 December 2022	Profit or loss Strengthening/weakening of currency KShs'000	Equity net of tax Strengthening/weakening of currency KShs'000
USD (± 2.5% movement)	(63,492)	(44,444)
GBP (± 2.5% movement)	96	67
EUR (± 2.5% movement)	(494)	(346)

(d) Capital management

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

Regulatory capital – Kenya

The Central Bank of Kenya sets and monitors capital requirements for banking industry in Kenya.

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

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

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
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4. FINANCIAL RISK MANAGEMENT

(d) Capital management (Continued)

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

The Central Bank of Kenya requires a bank to maintain at all times:
- a core capital of not less than 8% of total risk weighted assets, plus risk weighted off -balance sheet items
- a core capital of not less than 8% of its total deposit liabilities
- a total capital of not less than 12% of its total risk weighted assets, plus risk weighted off-balance sheet items

In addition to the minimum capital adequacy ratios of 8% and 12%, institutions are required to hold a capital conservation buffer of 2.5% over and above these minimum ratios to enable the institutions withstand future periods of stress. This brings the minimum core capital to risk weighted assets and total capital to risk weighted assets requirements to 10.5% and 14.5% respectively.

A bank must maintain a minimum core capital of KShs 1,000 million. The bank's regulatory capital is analysed into two tiers:
- Tier 1 capital. This includes ordinary share capital, share premium, retained earnings and after deduction of investment in subsidiaries, goodwill, other intangible assets and other regulatory adjustments relating to items that are included in equity which are treated differently for capital adequacy purposes.
- Tier 2 capital. This includes 25% of revaluation reserves of property and equipment, subordinated debt not exceeding 50% of core capital, collective impairment allowances and any other approved reserves.

The risk based approach to capital adequacy measurement is applied to both on and off balance sheet items. Risk weights are assigned on assets from assessing the following:
- Credit risk arising from the possibility of losses associated with reduction of credit quality of borrowers or counterparties;
- Market risk arising from movements in market prices pertaining to interest rate related instruments and foreign exchange risk and commodities risk;
- Operational risk resulting from inadequate or failed internal processes, people and systems or from external events.

The Bank's (Company's) regulatory capital position at 31 December was as follows:

		2023 KShs '000	2022 KShs '000
Core capital (Tier 1)			
Share capital		3,000,000	3,000,000
Share premium		5,531,267	5,531,267
Retained earnings		39,478,199	37,144,898
		48,009,466	**45,676,165**
Less: Deferred tax		(1,180,242)	(43,261)
Less: Investment in subsidiary		(3,882,612)	(3,057,585)
Total Core capital		**42,946,612**	**42,575,319**
Supplementary capital (Tier 2)			
Term subordinated debt		7,917,524	7,870,156
Statutory loan loss reserve		9,341,350	6,008,653
		17,258,874	**13,878,809**
Total capital		**60,205,486**	**56,454,128**
Risk weighted assets			
Credit risk weighted assets		276,325,122	220,987,952
Market risk weighted assets		19,737,672	20,940,394
Operational risk weighted assets		45,448,696	37,840,940
Total risk weighted assets		**341,511,490**	**279,769,286**
Deposits from customers		**312,370,291**	**236,775,189**
Capital ratios	**Minimum***		
Core capital/Total deposit liabilities	**8.0%**	**13.75%**	**17.98%**
Core capital /Total risk weighted assets	**10.5%**	**12.58%**	**15.22%**
Total capital /Total risk weighted assets	**14.5%**	**17.63%**	**20.18%**

As defined by the Central Bank of Kenya

OUR FINANCIALS (Continued)

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4. FINANCIAL RISK MANAGEMENT

(d) Capital management (Continued)

Regulatory capital – Tanzania
The Bank of Tanzania sets and monitors capital requirements for the Tanzania banking industry. The Bank of Tanzania has set among other measures, the rules and ratios to monitor adequacy of a bank's capital. In implementing current capital requirements, The Bank of Tanzania requires Banks to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank's regulatory is analysed in two tiers:

- Tier 1 capital: This includes ordinary share capital, share premium, retained earnings, after deductions for prepaid expenses, goodwill, other 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: This includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealized gains on equity instruments classified as FVOCI.

Various limits are applied to elements of the capital base such as qualifying Tier 2 capital cannot exceed Tier 1 capital and qualifying subordinated debt 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. Tier 1 capital is also subjected to various limits such as Tier 1 capital should not be less than 10 percent of the risk weighted assets.

In addition to the above requirements, the Bank of Tanzania require banks to maintain a capital conservation buffer of 2.5% over and above the regulatory capital ratios to enable the Bank to withstand stressful economic conditions. In situations where the buffer is less than 2.5%, the Bank is restricted from distributing any dividends to shareholders as well as paying bonus to senior management and other staff members. Further the Bank is required to submit a capital restoration plan to the Bank of Tanzania (BoT) within a specified period of time as determined by BoT. In the event the capital restoration plan is not approved by BoT, the Bank may be directed to raise additional capital in order to restore the capital conservation buffer.

The Bank's regulatory capital position is as illustrated below:

Total risk weighted assets		**495,430,218**	**442,790,292**
Capital ratios	**Minimum***		
Core capital /Total risk weighted assets	10.0%	13.82%	15.22%
Total capital /Total risk weighted assets	12.0%	18.26%	16.39%

As defined by the Bank of Tanzania

(e) Climate related risk

Climate-related risks' are potential negative impacts on the Group 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, they have been identified and managed by the Group on an overall basis.

The Group distinguishes between physical risks and transition risks. Physical risks arise as 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 – e.g. 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 has set up a Board Risk Committee, which is responsible for developing group-wide policies, processes and controls to incorporate climate risks in the management of principal risk categories.

The Group has developed a climate risk framework for:

- identifying risk factors and assessing their potential impact on the Group's financial statements; and
- allocating responsibilities for managing each identified risk factor. The Group has also set out principles on how to incorporate climate-related risk into stress test scenarios

The Group has identified the following climate-related risk factors as having an impact on the Group's financial instruments and included them in its principal risk management processes.

- Industries exposed to increased transition risks: The Group has identified industries that are subject to increased risk of climate regulation negatively affecting their business model. The Group Credit Committee has set overall lending limits for these industries. – Physical risk to real estate: The Group has identified areas in which it operates that are exposed to increased physical risk such as hurricanes or floods. Heightened physical risk is considered in valuing collateral, such as real estate, plant or inventory.

In addition, the Group is in the process of 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.

OUR FINANCIALS (Continued)

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5. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty

(a) Allowance for credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3(f)(iii) which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

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

(b) Income taxes

Significant estimates are required in determining the liability for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax liability in the period in which such determination is made. (refer to Note 14 and Note 26)

(c) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy 3(j)(ii) and computed in Note 25. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(d) Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include financial asset and liability classification (Note 3), lease term (Note 32) and determination of FV of assets (unobservable inputs) (Note 6). The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets as held to collect, the Group has determined that it has both positive intention and ability to hold the assets until their maturity date as required by the group's accounting policies.

Note 3(f)(ii). The classification of financial assets includes the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Notes 3(f)(iii) and 4(a). The impairment of financial instruments includes the assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses (ECL).

Note 23: Impairment testing for CGUs containing goodwill: Key assumptions underlying recoverable amounts.

Note 37 and Note 38: Recognition and measurement of contingencies: Key assumptions about the likelihood and magnitude of an outflow of resources.

Note 6: measurement of fair value of financial instruments with significant unobservable inputs.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE

Accounting classifications at carrying amounts and fair values

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or
- liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (level 3).

The following sets out the Group's basis of establishing fair values of financial instruments:
Investment securities with observable market prices including equity securities are fair valued using that information. Investment securities that do not have observable market data are fair valued either using discounted cash flow method or quoted market prices for securities with similar yield characteristics.

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

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

Cash and balances with Central Banks are measured at amortised cost and their fair value approximates their carrying amount.

A substantial proportion of deposits mature within 12 months and hence the fair value approximates their carrying amounts.

Category of asset/liability	Valuation techniques applied	Significant observable inputs
Cash and cash equivalents, loans and advances to banks and due from group companies	Carrying amount since the amounts are receivable on demand as at the reporting date	
Loans and advances to customers	Discounted cash flow models	Interest rates, expected lifetime credit losses , prepayments rates and primary origination or secondary market spreads
Government trading securities/ Government securities	Prices quoted in active market	Quoted yields and bid offer adjustment that management has estimated as the reasonable basis for applying the adjustment
Foreign exchange derivatives	Discounted cash flow techniques and/or option pricing models, such as the Black Scholes model	Spot price, interest rate and/ or volatility
Deposits	Using the carrying amount since the amounts are payable on demand as at the reporting date	

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

OUR FINANCIALS (Continued)

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6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

Group	Carrying amounts					Fair value			
31 December 2023	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Financial assets at FVTPL KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets									
Cash and balances with central banks	24,124,036	-	-	-	**24,124,036**	-	-	-	-
Items in the course of collection	343,983	-	-	-	**343,983**	-	-	-	-
Loans and advances to banks	44,341,612	-	-	-	**44,341,612**	-	`	-	-
Loans and advances to customers	259,374,033	-	-	-	**259,374,033**	-	270,580,385	-	**270,580,385**
Financial assets at fair value through profit or loss (FVTPL)	-	-	738,185	-	**738,185**	738,185	-	-	**738,185**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	56,010,179	-	-	**56,010,179**	56,305,957	-	-	**56,305,957**
Other financial assets at amortised cost	36,407,474	-	-	-	**36,407,474**	34,991,322	-	-	**34,991,322**
Due from group companies	2,947,483	-	-	-	**2,947,483**	-	-	-	-
Other assets	3,959,856	-	-	-	**3,959,856**	-	-	-	-
	371,498,477	**56,010,179**	**738,185**	-	**428,246,841**	**92,035,464**	**270,580,385**	-	**362,615,849**
Financial liabilities									
Deposits from banks	-	-	-	21,629,821	**21,629,821**	-	-	-	-
Deposits from customers	-	-	-	341,154,590	**341,154,590**	-	-	-	-
Due to group companies	-	-	-	4,699,449	**4,699,449**	-	-	-	-
Long term borrowings	-	-	-	204,921	**204,921**	-	-	-	-
Subordinated debt	-	-	-	12,532,190	**12,532,190**	-	-	-	-
Other liabilities	-	-	-	5,824,471	**5,824,471**	-	-	-	-
	-	-	-	**386,045,442**	**386,045,442**	-	-	-	-

Short-term financial instruments carrying amounts reasonably approximate their fair values.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

Group	Carrying amounts					Fair value			
31 December 2022	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Financial assets at FVTPL KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets									
Cash and balances with central banks	15,966,304	-	-	-	**15,966,304**	-	-	-	-
Items in the course of collection	433,996	-	-	-	**433,996**	-	-	-	-
Loans and advances to banks	10,981,678	-	-	-	**10,981,678**	-	-	-	-
Loans and advances to customers	203,355,150	-	-	-	**203,355,150**	-	218,763,524	-	**218,763,524**
Financial assets at fair value through profit or loss (FVTPL)	-	-	15,080,925	-	**15,080,925**	15,080,925	-	-	**15,080,925**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	50,034,300	-	-	**50,034,300**	50,330,078	-	-	**50,330,078**
Other financial assets at amortised cost	29,115,880	-	-	-	**29,115,880**	21,765,641	-	-	**21,765,641**
Due from group companies	782,325	-	-	-	**782,325**	-	-	-	-
Other assets	3,599,744	-	-	-	**3,599,744**	-	-	-	-
	264,235,077	**50,034,300**	**15,080,925**	-	**329,350,302**	**87,176,644**	**218,763,524**	-	**305,940,168**
Financial liabilities									
Deposits from banks	-	-	-	11,182,714	**11,182,714**	-	-	-	-
Deposits from customers	-	-	-	257,841,512	**257,841,512**	-	-	-	-
Due to group companies	-	-	-	1,732,442	**1,732,442**	-	-	-	-
Long term borrowings	-	-	-	1,563,943	**1,563,943**	-	1,563,943	-	**1,563,943**
Subordinated debt	-	-	-	9,800,069	**9,800,069**	-	9,800,069	-	**9,800,069**
Other liabilities	-	-	-	5,444,455	**5,444,455**	-	-	-	-
	-	-	-	**287,565,135**	**287,565,135**	-	**11,364,012**	-	**11,364,012**

Short-term financial instruments carrying amounts reasonably approximate their fair values.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)

Measurement of fair values

Valuation techniques and significant unobservable inputs

Financial assets measured at fair value - At 31st December

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Investment securities – Fair Value through Other Comprehensive Income	Prices quoted at securities exchanges	None	Not applicable

During the year , there were no transfers of financial instruments into and out of level 1,2 and3 hierarchy.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

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6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)

Accounting classifications at carrying amounts and fair values (continued)

Company	Carrying amounts					Fair value			
31 December 2023	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Financial assets at FVTPL KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets									
Balances with Central Bank of Kenya	20,884,419	-	-	-	**20,884,419**	-	-	-	-
Items in the course of collection	316,197	-	-	-	**316,197**	-	-	-	-
Financial assets at fair value through profit or loss (FVTPL)	-	-	538,513	-	**538,513**	538,513	-	-	**538,513**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	55,710,597	-	-	**55,710,597**	56,006,375	-	-	**56,006,375**
Other financial assets at amortised cost	26,878,671	-	-	-	**26,878,671**	25,462,519	-	-	**25,462,519**
Loans and advances to banks	41,860,158	-	-	-	**41,860,158**	-	-	-	-
Loans and advances to customers	231,238,716	-	-	-	**231,238,716**	-	240,022,910	-	**240,022,910**
Due from group companies	5,172,971	-	-	-	**5,172,971**	-	-	-	-
Other assets	-	3,481,960	-	-	**3,481,960**	-		-	-
	326,351,132	**59,192,557**	**538,513**	-	**386,082,202**	**82,007,407**	**240,022,910**	-	**322,030,317**
Financial liabilities									
Deposits from banks	-	-	-	20,570,517	**20,570,517**	-	-	-	-
Deposits from customers	-	-	-	305,995,191	**305,995,191**	-	-	-	-
Due to group companies	-	-	-	5,087,206	**5,087,206**	-	-	-	-
Subordinated debt	-	-	-	12,532,190	**12,532,190**	-	12,532,190	-	**12,532,190**
Other liabilities	-	-	-	4,672,837	**4,672,837**	-	-	-	-
	-	-	-	**348,857,941**	**348,857,941**	-	**12,532,190**	-	**12,532,190**

Short-term financial instruments carrying amounts reasonably approximate their fair values.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)

Accounting classifications at carrying amounts and fair values (continued)

Company	Carrying amounts					Fair value			
31 December 2022	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Financial assets at FVTPL KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets									
Balances with Central Bank of Kenya	12,978,570	-	-	-	**12,978,570**	-	-	-	-
Items in the course of collection	433,996	-	-	-	**433,996**	-	-	-	-
Financial assets at fair value through profit or loss (FVTPL)	-	-	15,080,925	-	**15,080,925**	15,080,925	-	-	**15,080,925**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	49,622,300	-	-	**49,622,300**	49,918,078	-	-	**49,918,078**
Other financial assets at amortised cost	22,655,837	-	-	-	**22,655,837**	15,305,598	-	-	**15,305,598**
Loans and advances to banks	9,985,263	-	-	-	**9,985,263**	-	-	-	-
Loans and advances to customers	184,013,890	-	-	-	**184,013,890**	-	197,622,284	-	**197,622,284**
Due from group companies	1,009,654	-	-	-	**1,009,654**	-	-	-	-
Other assets	-	3,338,641	-	-	**3,338,641**	-	-	-	-
	231,077,210	**52,960,941**	**15,080,925**	-	**299,119,076**	**80,304,601**	**197,622,284**	-	**277,926,885**
Financial liabilities									
Deposits from banks	-	-	-	9,715,491	**9,715,491**	-	-	-	-
Deposits from customers	-	-	-	233,806,796	**233,806,796**	-	-	-	-
Due to group companies	-	-	-	1,914,149	**1,914,149**	-	-	-	-
Long term borrowings	-	-	-	884,444	**884,444**	-	884,444	-	**884,444**
Subordinated debt	-	-	-	9,800,069	**9,800,069**	-	9,800,069	-	**9,800,069**
Other liabilities	-	-	-	4,755,652	**4,755,652**	-	-	-	-
	-	-	-	**260,876,601**	**260,876,601**	-	**10,684,513**	-	**10,684,513**

Short-term financial instruments carrying amounts reasonably approximate their fair values.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

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7. INTEREST INCOME CALCULATED USING EFFECTIVE INTEREST RATE

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Loans and advances to customers	30,232,911	21,032,245	26,983,044	18,929,697
Loans and advances to banks	1,332,536	242,015	1,253,907	171,304
Investment securities:-				
- At amortised cost	4,012,373	3,551,026	3,155,639	2,932,772
- FVOCI - Debt instruments	5,063,169	4,831,037	5,044,749	4,813,413
	40,640,989	**29,656,323**	**36,437,339**	**26,847,186**

8. INTEREST EXPENSE

	Group 2023	Group 2022	Company 2023	Company 2022
Deposits from customers	15,799,226	9,955,788	14,491,877	8,901,892
Deposits from banks	1,577,359	863,925	1,488,626	831,755
Long term debt	87,214	162,975	41,663	98,788
Subordinated debt	1,012,648	646,582	1,012,648	646,582
Lease liabilities (Note 31)	145,731	145,626	130,137	129,922
	18,622,178	**11,774,896**	**17,164,951**	**10,608,939**

9. NET FEE AND COMMISSION INCOME

	Group 2023	Group 2022	Company 2023	Company 2022
Fee and commission income				
Commissions	3,957,967	3,296,262	3,453,711	2,808,695
Service fees	1,592,217	1,433,827	1,470,866	1,293,913
	5,550,184	**4,730,089**	**4,924,577**	**4,102,608**
Fee and commission expense				
Interbank transaction fees	(169,578)	(126,903)	(169,571)	(126,311)
Other	(252,061)	(126,685)	(249,634)	(124,686)
	(421,639)	**(253,588)**	**(419,205)**	**(250,997)**
Net fee and commission income	**5,128,545**	**4,476,501**	**4,505,372**	**3,851,611**

Fees and commission from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognizes revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature of timing of satisfaction of performance, obligations, including significant payment terms	Revenue recognition policies under IFRS 15
Transactional service fees	Consist of fees charged for processing services such as cash management, global payments, clearing, international funds transfer and other trade services	Recognized as/when the associated service is satisfied, which normally occurs at the point in time the service is requested by the customer and provided.
Deposit-related fees	Consist of service charges on deposit accounts and fees earned from performing cash management activities and other deposit account services.	Fees are recognized in the period in which the related service is provided
Insurance distribution revenue/commission	Commissions earned from third-party insurance companies for marketing and selling insurance policies.	Commissions are recognized in Commissions and fees at the point in time the associated service is fulfilled- when the insurance policy is sold to the policyholder.
Credit card and bank card income	Composed of interchange fees, which are earned by card issuers based on purchase sales, and certain card fees, including annual fees. Costs related to customer reward programs and certain payments to partners (primarily based on program sales, profitability and customer acquisitions	Costs related to card reward programs are recognized when the rewards are earned by the cardholders. Payments to partners are recognized when incurred

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Notes to the consolidated and separate financial statements
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10. NET TRADING INCOME

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Income from foreign exchange dealings	3,950,248	4,241,395	3,566,279	4,021,933
Net income on financial assets at fair value through profit or loss (FVTPL)	875,594	860,147	863,910	860,147
	4,825,842	**5,101,542**	**4,430,189**	**4,882,080**

Net income on financial assets relates interest income, premium, discount and revaluation gain or loss on financial assets fair valued through Profit or loss statement.

11. OTHER OPERATING INCOME

Other income				
Profit on sale of property and equipment	57	1,923	57	1,923
Management fees income	134,059	61,520	199,758	96,914
Other income	130,907	205,283	91,697	170,117
	265,023	**268,726**	**291,512**	**268,954**
Dividend income				
Dividend income - Giro Limited	-	-	27,000	13,500
Dividend income - I&M Bank (T) Limited	-	-	15,000	56,387
Dividend income - I&M Bancassurance Intermediary Limited	-	-	75,000	17,500
	-	-	**117,000**	**87,387**

12. OPERATING EXPENSES

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Staff Costs				
Salaries and wages	4,416,119	3,877,564	3,698,492	3,263,995
Contribution to defined benefit and contribution plan	233,774	215,697	229,938	212,046
Statutory contribution	77,788	55,350	15,537	2,696
Other staff costs*	569,636	511,700	487,297	428,199
	5,297,317	**4,660,311**	**4,431,264**	**3,906,936**
Premises and equipment costs				
Service charge	171,627	158,710	156,182	147,894
Utilities	210,049	179,084	200,121	170,437
Other premises and equipment costs	69,904	73,814	42,317	41,233
	451,580	**411,608**	**398,620**	**359,564**
General administrative expenses				
Deposit protection insurance contribution	430,096	397,548	390,682	366,885
Other general administrative expenses**	5,150,723	3,529,574	4,275,503	2,958,874
	5,580,819	**3,927,122**	**4,666,185**	**3,325,759**
Depreciation and amortisation				
Depreciation on property and equipment (Note 24)	1,051,544	985,495	959,948	856,799
Amortisation of intangible assets (Note 25)	858,573	642,748	754,143	558,342
	1,910,117	**1,628,243**	**1,714,091**	**1,415,141**

* Other staff cost relates to staff insurance expenses, training expenses, team building, staff uniforms, staff subscriptions and per diem allowances.

** Other general administrative expenses relates to marketing expenses, donations, professional fees, Software's annual maintenance expenses, card operating expenses, Insurance expenses, bank charges, travel expenses, printing and stationary repair and maintenance expenses.

The average number of employees employed are as follows:

	Group		Company	
	2023	2022	2023	2022
Management	1,345	1,205	1,170	1,021
Others	307	214	276	196
	1,652	**1,419**	**1,446**	**1,217**

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13. PROFIT BEFORE INCOME TAX

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Profit before income tax is arrived at after charging:				
Depreciation	1,051,544	985,495	959,948	856,799
Amortisation of intangible assets	856,297	642,748	754,143	558,342
Directors' emoluments: - fees	45,764	40,799	30,183	27,843
Directors' emoluments: - other	298,940	202,321	298,940	202,321
Auditor's remuneration	32,450	26,316	12,641	10,412
Net profit on sale of property and equipment	57	1,923	57	1,923

14. INCOME TAX EXPENSE AND TAX PAYABLE
(a) Income tax expense

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Current tax				
Current year's tax	3,737,347	3,890,255	3,569,298	3,774,841
Under provision in prior year	(12,479)	10,650	(12,479)	10,899
	3,724,868	**3,900,905**	**3,556,819**	**3,785,740**
Deferred tax (Note 26)				
Current year	(1,196,885)	(1,580,725)	(1,140,962)	(1,349,536)
Prior year adjustment	(47,657)	61,728	(47,657)	61,728
	(1,244,542)	**(1,518,997)**	**(1,188,619)**	**(1,287,808)**
Income tax expense	**2,480,326**	**2,381,908**	**2,368,200**	**2,497,932**
The tax on the profit differs from the theoretical amount using the basic tax rate as follows:				
Accounting profit before tax	**12,566,914**	**11,739,214**	**12,084,199**	**12,260,083**
Computed tax using the applicable corporation tax rate at 30%	3,770,074	3,521,764	3,625,260	3,678,025
Under provision in prior year	(12,479)	10,650	(12,479)	10,899
Effect on non-deductible costs/non-taxable income	(1,229,612)	(1,212,234)	(1,196,924)	(1,252,720)
Over provision in prior year - deferred tax	(47,657)	61,728	(47,657)	61,728
	2,480,326	**2,381,908**	**2,368,200**	**2,497,932**

(b) Tax (recoverable)/payable

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
At 1 January	(347,578)	(96,744)	(278,849)	(125,958)
Income tax expense (Note 14(a)	3,724,868	3,900,905	3,556,819	3,785,740
Effect of tax in foreign jurisdiction	(19,542)	(1,695)	-	-
Tax paid	(3,963,303)	(4,150,044)	(3,722,343)	(3,938,631)
At 31 December	**(605,555)**	**(347,578)**	**(444,373)**	**(278,849)**
Tax recoverable	(605,555)	(353,305)	(444,373)	(278,849)
Tax payable	-	5,727	-	-
	(605,555)	**(347,578)**	**(444,373)**	**(278,849)**

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

15. EARNINGS PER SHARE

	Group		Company	
	2023	2022	2023	2022
Net profit after tax attributable to owners of the company (KShs '000')	10,027,469	9,469,652	9,715,999	9,762,151
Weighted average number of ordinary shares in issue during the year ('000)	30,000	30,000	30,000	30,000
Earnings per share (KShs)	334.25	315.66	323.87	325.41

There were no potentially dilutive shares outstanding at 31 December 2023 (2022 – Nil).

16. DIVIDEND PER SHARE

	2023 KShs'000	2022 KShs'000
The calculation of dividend per share is based on:		
Final dividend proposed during the year (KShs'000)	4,050,000	6,300,000
	4,050,000	6,300,000
Number of ordinary shares in issue as at 31 December ('000)	30,000	30,000
Final dividend per share (KShs.)	135	210

The payment of dividends is subject to withholding tax at the rate of 10% for all non-residents, 5% for Kenyan residents and Nil for resident Kenyan companies with shareholding of 12.5% or more.

17. CASH AND BALANCES WITH CENTRAL BANKS

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Cash on hand	4,120,681	3,252,284	3,746,323	2,383,260
Balances with central banks:				
- Restricted balances (Cash reserve ratio)	14,737,042	10,981,761	12,773,669	9,644,259
- Unrestricted balances	5,266,313	1,732,259	4,364,427	951,051
	24,124,036	15,966,304	20,884,419	12,978,570

The Group's Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the respective central banks requirements. At 31st December 2023, the cash ratio requirement was 4.25% (2022 – 4.25%) in Kenya and, 6.0% (2022 – 6.0%) in Tanzania of eligible deposits. These funds are available for use by the Company (I&M Bank LIMITED) in its day-to-day operations in a limited way provided that on any given day this balance does not fall below the 3.00% requirement and provided that the overall average in the month is at least 4.25% (2022 - 4.25%)

18. ITEMS IN THE COURSE OF COLLECTION

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Assets	343,983	433,996	316,197	433,996

Items in the course of collection represent net settlement balances through the inter-banking clearing process.

19. LOANS AND ADVANCES TO BANKS

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Due within 90 days	44,340,965	10,634,142	41,859,511	9,637,727
Due after 90 days	647	347,536	647	347,536
	44,341,612	10,981,678	41,860,158	9,985,263

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
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20. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Overdrafts	70,590,993	62,608,980	58,455,943	54,612,165
Loans	183,894,462	143,186,147	165,472,036	130,041,722
Bills discounted	4,942,452	2,926,684	4,942,452	2,926,684
Finance leases	11,152,478	10,041,713	11,152,479	10,041,713
Gross loans and advances	**270,580,385**	**218,763,524**	**240,022,910**	**197,622,284**
Less: Impairment losses on loans and advances	(11,206,352)	(15,408,374)	(8,784,194)	(13,608,394)
Net loans and advances	**259,374,033**	**203,355,150**	**231,238,716**	**184,013,890**

The movement in impairment loss reserves in compliance with IFRS 9 is disclosed on Note 5(a)(iii).

(b) Impairment losses on loans and advances

Group 2023	Loans and advances to customers at amortised cost KShs'000	Loan commitments and financial guarantee contracts KShs'000	Total banking KShs'000	Trade receivables KShs'000	Total KShs'000
Net remeasurement of loss allowance	5,479,387	119,347	5,598,734	(5,147)	5,593,587
New financial assets originated or purchased	554,776	61,888	616,664	-	616,664
	6,034,163	**181,235**	**6,215,398**	**(5,147)**	**6,210,251**
Recoveries and impairment no longer required	(53,754)	(36,657)	(90,411)	-	(90,411)
Recoveries of loans and advances previously written off	(296,042)	-	(296,042)	-	(296,042)
Amounts directly written off during the year	607,676	-	607,676	-	607,676
	6,292,043	**144,578**	**6,436,621**	**(5,147)**	**6,431,474**

Group 2022	Loans and advances to customers at amortised cost KShs'000	Loan commitments and financial guarantee contracts KShs'000	Total banking KShs'000	Trade receivables KShs'000	Total KShs'000
Net remeasurement of loss allowance	5,465,610	(58,671)	5,406,939	12,510	5,419,449
New financial assets originated or purchased	238,679	1,307	239,986	-	239,986
	5,704,289	**(57,364)**	**5,646,925**	**12,510**	**5,659,435**
Recoveries and impairment no longer required	(261,873)	(34,707)	(296,580)	-	(296,580)
Recoveries of loans and advances previously written off	(158,304)	-	(158,304)	-	(158,304)
Amounts directly written off during the year	157,147	-	157,147	-	157,147
	5,441,259	**(92,071)**	**5,349,188**	**12,510**	**5,361,698**

Company 2023	Loans and advances to customers at amortised cost KShs'000	Loan commitments and financial guarantee contracts KShs'000	Total banking KShs'000
Net remeasurement of loss allowance	4,129,331	109,837	4,239,168
New financial assets originated or purchased	551,194	61,888	613,082
	4,680,525	**171,725**	**4,852,250**
Recoveries and impairment no longer required	(48,137)	(36,653)	(84,790)
Recoveries of loans and advances previously written off	(47,419)	-	(47,419)
Amounts directly written off during the year	602,061	-	602,061
	5,187,030	**135,072**	**5,322,102**

OUR FINANCIALS (Continued)
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20. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Impairment losses on loans and advances (Continued)

Company 2022	Loans and advances to customers at amortised cost KShs'000	Loan commitments and financial guarantee contracts KShs'000	Total banking KShs'000
Net remeasurement of loss allowance	4,168,023	(48,681)	4,119,342
New financial assets originated or purchased	237,881	1,307	239,188
	4,405,904	**(47,374)**	**4,358,530**
Recoveries and impairment no longer required	(141,817)	(34,705)	(176,522)
Recoveries of loans and advances previously written off	(158,304)	-	(158,304)
Amounts directly written off during the year	37,092	-	37,092
	4,142,875	**(82,079)**	**4,060,796**

(c) Non-performing loans and advances

Non-performing loans and advances net of impairment losses and estimated value of securities are disclosed in Note 5(a).

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Interest on impaired loans and advances which has not yet been received in cash	**1,491,657**	**1,366,186**	**733,299**	**696,422**

(d) Loans and advances concentration by sector

Group	2023 KShs '000	%	2022 KShs '000	%
Manufacturing	77,571,947	29%	63,351,066	29%
Wholesale and retail trade	55,076,033	20%	43,596,397	20%
Building and construction	13,968,194	6%	13,436,910	6%
Agriculture	16,510,174	5%	10,227,804	5%
Real estate	30,268,753	15%	32,417,252	15%
Transport and communication	25,654,281	6%	12,067,646	6%
Business services	8,244,061	4%	7,850,706	4%
Electricity and water	1,445,581	1%	2,133,403	1%
Finance and insurance	9,512,480	3%	6,488,784	3%
Mining and quarrying	1,971,090	1%	2,009,133	1%
Others	30,357,793	10%	25,184,423	10%
	270,580,387	**100%**	**218,763,524**	**100%**

Company	2023 KShs '000	%	2022 KShs '000	%
Manufacturing	69,740,067	30%	58,816,638	30%
Wholesale and retail trade	47,644,913	20%	39,926,922	20%
Building and construction	12,422,757	6%	12,173,107	6%
Agriculture	14,626,879	4%	8,888,444	4%
Real estate	25,427,867	14%	27,965,701	14%
Transport and communication	23,972,515	6%	11,084,258	6%
Business services	7,622,521	4%	7,355,519	4%
Electricity and water	1,445,581	1%	2,133,403	1%
Finance and insurance	9,512,480	3%	6,488,784	3%
Mining and quarrying	1,495,962	1%	1,584,657	1%
Others	26,111,368	11%	21,204,851	11%
	240,022,910	**100%**	**197,622,284**	**100%**

OUR FINANCIALS (Continued)

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20. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(e) Finance leases

Loans and advances to customers include finance leases receivable as follows:

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Receivable no later than 1 year	718,204	490,992	718,204	490,992
Receivable later than 1 year and no later than 5 years	8,877,007	6,677,302	8,877,007	6,677,302
Receivable later than 5 year	1,557,267	2,873,419	1,557,267	2,873,419
	11,152,478	**10,041,713**	**11,152,478**	**10,041,713**

21. INVESTMENT SECURITIES

(a) Investment securities at fair value through profit or loss (FVTPL)

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Derivative assets	538,513	739,898	538,513	739,898
Government securities	199,672	14,341,027	-	14,341,027
	738,185	**15,080,925**	**538,513**	**15,080,925**

(b) Investment securities measured at fair value through other comprehensive income (FVOCI)

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Equity investments	725,941	550,051	662,532	496,475
Preference shares investment in related parties*	4,640,941	4,648,443	4,640,941	4,648,443
Corporate bonds	295,778	295,778	295,778	295,778
Government securities	50,347,519	44,540,028	50,111,346	44,181,604
	56,010,179	**50,034,300**	**55,710,597**	**49,622,300**

* On 28 January 2016 and 6 July 2016, I&M Realty Limited issued 350 5% non-cumulative preference shares of a par value of KShs 10,000,000 each to the value of KShs 3.5 billion redeemable after a period of 7 years at the discretion of the issuer, which were fully subscribed to by I&M Bank LIMITED. An additional 30 non-cumulative redeemable preference shares of KShs 10,000,000 each were issued in 2019 by I&M Realty Limited and were fully subscribed by I&M Bank LIMITED. These additional preference rank pari passu in all respect with the existing non-cumulative redeemable preference shares.

* On 17 June 2021, Giro Limited issued 9,000,000 5% non-cumulative preference shares of a par value of KShs 30 each at KShs 60 each to the value of KShs 540,000,000 redeemable after a period of 5 years but before the expiry of 10 years at the discretion of the issuer, which were fully subscribed to by I&M Bank LIMITED.

(c) Investment securities at amortised cost

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Government securities	36,370,658	29,058,219	26,878,671	22,655,837
Trade receivables	36,816	57,661	-	-
	36,407,474	**29,115,880**	**26,878,671**	**22,655,837**

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21. INVESTMENT SECURITIES (Continued)

The change in the carrying amount of investment securities held by the Group is as shown below:

Group	Investment securities at fair value through profit or loss (FVTPL) Government securities KShs'000	Investment securities at amortised cost Government securities KShs'000	Financial assets measured at fair value through other comprehensive income (FVOCI)				Total KShs'000
			Government securities KShs'000	Preference shares KShs'000	Equity investments KShs'000	Corporate bond KShs'000	
31 December 2023							
At 1 January	15,080,925	29,058,219	44,540,028	4,648,443	550,051	295,778	94,173,444
Additions	1,434,243	44,598,295	15,146,845	-	-	-	61,179,383
Disposals and maturities	(15,578,379)	(39,245,464)	(7,066,794)	-	-	-	(61,890,637)
Changes in fair value	(199,104)	-	(2,109,611)	(7,502)	83,521	-	(2,232,696)
Amortisation of discounts and premiums, unearned interest and interest receivable	500	784,540	(201,615)	-	82,536	-	665,961
Translation reserve	-	1,175,068	38,666	-	9,833	-	1,223,567
At 31 December	**738,185**	**36,370,658**	**50,347,519**	**4,640,941**	**725,941**	**295,778**	**93,119,022**
31 December 2022							
At 1 January	15,932,960	36,142,410	57,074,203	4,692,795	476,414	295,012	114,613,794
Additions	5,000	10,673,991	9,418,567	-	-	-	20,097,558
Disposals and maturities	(167,300)	(20,064,028)	(17,848,376)	-	-	-	(38,079,704)
Changes in fair value	(2,408,180)	-	(4,110,773)	(44,352)	69,804	696	(6,492,805)
Amortisation of discounts and premiums, unearned interest and interest receivable	1,718,445	1,879,104	14,258	-	-	70	3,611,877
Translation reserve	-	426,742	(7,851)	-	3,833	-	422,724
At 31 December	**15,080,925**	**29,058,219**	**44,540,028**	**4,648,443**	**550,051**	**295,778**	**94,173,444**

OUR FINANCIALS (Continued)
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21. INVESTMENT SECURITIES (Continued)

The change in the carrying amount of investment securities held by the Company is as shown below:

Company	Investment securities at fair value through profit or loss (FVTPL) Government securities KShs'000	Investment securities at amortised cost Government securities KShs'000	Financial assets measured at fair value through other comprehensive income (FVOCI)				Total KShs'000
			Government securities KShs'000	Preference shares KShs'000	Equity investments KShs'000	Corporate bond KShs'000	
31 December 2023							
At 1 January	15,080,925	22,655,837	44,181,604	4,648,443	496,475	295,778	87,359,062
Additions	-	40,457,666	14,303,608	-	-	-	54,761,274
Disposals and maturities	(14,341,027)	(36,751,957)	(6,067,989)	-	-	-	(57,160,973)
Changes in fair value	(201,385)	-	(2,097,090)	(7,502)	83,521	-	(2,222,456)
Amortisation of discounts and premiums, unearned interest and interest receivable	-	517,125	(208,787)	-	82,536		390,874
At 31 December	**538,513**	**26,878,671**	**50,111,346**	**4,640,941**	**662,532**	**295,778**	**83,127,781**
31 December 2022							
At 1 January	15,932,960	30,605,205	56,871,215	5,246,057	426,671	295,012	109,377,120
Additions	5,000	8,500,000	8,958,473	-	-	-	17,463,473
Disposals and maturities	(167,300)	(18,013,647)	(17,152,876)	(553,262)	-	-	(35,887,085)
Changes in fair value	(2,408,180)	-	(4,495,366)	(44,352)	69,804	696	(6,877,398)
Amortisation of discounts and premiums, unearned interest and interest receivable	1,718,445	1,564,279	158	-	-	70	3,282,952
At 31 December	**15,080,925**	**22,655,837**	**44,181,604**	**4,648,443**	**496,475**	**295,778**	**87,359,062**

OUR FINANCIALS (Continued)

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22. ASSETS HELD FOR SALE

As at 31 December 2023, the Group continued to recognize in its financial statements items of buildings obtained by possession of collateral. Sale of the buildings had not been completed for all the items at the balance sheet date but the Bank expects a sale to be completed in the following year, 2024.

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Assets held for sale	**307,501**	**748,849**	**307,501**	**748,849**

Assets held for sale are assets foreclosed by the Group in the normal course of business and are primarily recovered through sale.

23. INVESTMENT IN SUBSIDIARIES

	Country of incorporation	Sector	2023 KShs'000	2023 % Ownership	2022 KShs'000	2022 % Ownership
I&M Bank (T) Limited	Tanzania	Banking	3,882,712	78.51%	3,057,585	77.80%
I&M Bancassurance Intermediary Limited	Kenya	Insurance	100	100%	100	100%
At 1 January and 31 December			**3,882,812**		**3,057,685**	

The Bank acquired 55.03% controlling equity stake in CF Union Bank Limited (now I&M Bank (T) Limited) on 14 January 2010 to offer banking services in Tanzania. In 2016, through a combination of rights issues (effective 12 October 2016) and a buyout of Proparco shares in I&M Bank (T) Limited (effective 26 October 2016) to get to 70.38%, 77.80% in 2022 to 78.51% in 2023 following take up of renounced rights issue shares.

I&M Bancassurance Intermediary Limited was incorporated on 23 July 2014 and commenced operations on 1 August 2014 to offer insurance agency services in Kenya.

A summary of the subsidiaries performance is shown below;

Entity	Year	Revenue KShs'000 a	Expenses KShs'000 b	Profit before tax KShs'000 c=(a-b)	Profit after tax KShs'000 d
I&M Bank (T) Limited	2023	3,466,375	(3,157,195)	**309,180**	**275,099**
	2022	2,217,991	(2,906,698)	**(688,707)**	**(506,064)**
I&M Bancassurance Intermediary Limited	2023	351,148	(78,511)	**272,637**	**194,593**
	2022	327,246	(88,667)	**238,579**	**171,171**
Youjays Insurance Brokers Limited	2023	-	-	**-**	**-**
	2022	138	(457)	**(319)**	**(270)**

	Bank	
	2023 KShs '000	2022 KShs '000
At 1 January	3,057,685	3,057,685
Additional investment in I&M Bank (T) Limited	825,027	-
At 1 January and 31 December	**3,882,712**	**3,057,685**

Additional 762 Class A shares at par value TZS 1,000,000 each invested during the year.

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23. INVESTMENT IN SUBSIDIARIES (Continued)

The following table summarises the information relating to Group's subsidiary that has non-controlling interest (NCI).

NCI percentage	2023 21.49%	2022 22.2%
	KShs'000	KShs'000
Movement during the year		
At January	1,008,917	1,067,478
Comprehensive income		
Net (loss)/profit after tax	59,119	(112,346)
Translation reserve	195,104	64,215
Net fair value reserve	(384)	13,414
Total comprehensive income	**253,839**	**(34,717)**
Dividends paid	147,280	(23,844)
At 31 December	**1,410,036**	**1,008,917**

	2023 KShs'000	2022 KShs'000
Summarized statement of financial position		
Loans and advances to customers	28,135,317	19,341,259
Other assets	18,142,427	12,209,151
Liabilities	(39,734,777)	(27,023,018)
Net Assets	**6,542,967**	**4,527,392**
Carrying amount of NCI	1,406,084	1,005,081
Share premium taken up solely by NCI	3,952	3,836
Total carrying amount of NCI	**1,410,036**	**1,008,917**
Summarized statement of profit or loss and other comprehensive income		
Net interest income	2,720,748	1,622,319
Profit/(loss) for the year	275,099	(506,064)
Total comprehensive income	275,099	(506,064)
Profit allocated to NCI	**59,119**	**(112,346)**
Summarized statement of cash flows		
Net cash generated from operating activities	50,810	1,282,372
Net cash used in investing activities	(105,288)	(111,372)
Net cash used financing activities before dividends to NCI	135,307	(1,132,106)
Net increase in cash and cash equivalents	**80,829**	**38,894**

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24. PROPERTY AND EQUIPMENT

Group 2023	Leasehold improvements KShs'000	Furniture, fittings, fixtures and office equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Right of use asset KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost							
At 1 January	2,179,309	1,833,725	1,857,630	129,356	2,323,501	101,125	8,424,646
Additions	11,282	75,929	74,172	12,550	1,338,776	469,362	1,982,071
Disposal	(21,730)	(45,411)	(3,435)	-	(121,218)	(21,172)	(212,966)
Reclassification/internal transfers	61,907	47,836	238,336	11,890	-	(339,603)	20,366
Transters to intangible assets	-	-	-	-	-	(17,577)	(17,577)
Translation differences	39,770	77,562	10,448	6,152	51,907	3,998	189,837
At 31 December	**2,270,538**	**1,989,641**	**2,177,151**	**159,948**	**3,592,966**	**196,133**	**10,386,377**
Depreciation							
At 1 January	1,561,126	1,123,455	1,272,562	109,990	1,081,135	-	5,148,268
Reclassification	-	-	2,330	-	-	-	2,330
Charge for the year	215,301	144,400	362,135	12,735	316,973	-	1,051,544
Disposals	(21,452)	(21,747)	(3,292)	-	(121,127)	-	(167,618)
Translation differences	33,826	50,364	8,246	4,287	40,315	-	137,038
At 31 December	**1,788,801**	**1,296,472**	**1,641,981**	**127,012**	**1,317,296**	**-**	**6,171,562**
Net book value at 31 December	**481,737**	**693,169**	**535,170**	**32,936**	**2,275,670**	**196,133**	**4,214,815**

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24. PROPERTY AND EQUIPMENT (Continued)

Group 2022	Leasehold improvements KShs'000	Furniture, fittings, fixtures and office equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Right of use asset KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost							
At 1 January	2,130,674	1,670,020	1,634,584	122,038	2,443,845	150,365	8,151,526
Additions	13,619	102,891	26,722	9,429	56,936	203,533	413,130
Disposal	(1,045)	(7,540)	(677)	(4,160)	(196,055)	-	(209,477)
Reclassification/internal transfers	20,566	40,039	193,226	-	-	(253,831)	-
Translation differences	15,495	28,315	3,775	2,049	18,775	1,058	69,467
At 31 December	**2,179,309**	**1,833,725**	**1,857,630**	**129,356**	**2,323,501**	**101,125**	**8,424,646**
Depreciation							
At 1 January	1,319,894	970,785	956,000	101,374	949,935	-	4,297,988
Charge for the year	230,137	142,305	313,442	11,164	288,447	-	985,495
Disposals	(911)	(6,153)	353	(3,998)	(169,842)	-	(180,551)
Translation differences	12,006	16,518	2,767	1,450	12,595	-	45,336
At 31 December	**1,561,126**	**1,123,455**	**1,272,562**	**109,990**	**1,081,135**	**-**	**5,148,268**
Net book value at 31 December	**618,183**	**710,270**	**585,068**	**19,366**	**1,242,366**	**101,125**	**3,276,378**

OUR FINANCIALS (Continued)
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For the year ended 31 December 2023

24. PROPERTY AND EQUIPMENT (Continued)

Company 2023	Leasehold improvements KShs'000	Furniture, fittings, fixtures and office equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Right of use asset KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost							
At 1 January	1,962,623	1,351,406	1,885,310	95,839	2,025,289	67,141	7,387,608
Additions	11,282	70,527	68,802	12,550	895,058	439,855	1,498,074
Disposals	(21,730)	(32,445)	(3,435)	-	(121,218)	(21,172)	(200,000)
Reclassification/internal transfers	61,907	29,512	236,294	11,890	-	(339,603)	-
At 31 December	**2,014,082**	**1,419,000**	**2,186,971**	**120,279**	**2,799,129**	**146,221**	**8,685,682**
Depreciation							
At 1 January	1,381,866	848,821	1,253,246	88,398	871,324	-	4,443,655
On disposals	(21,452)	(31,260)	(3,292)	-	(121,126)	-	(177,130)
Charge for the year	204,317	105,637	356,152	8,880	284,962	-	959,948
At 31 December	**1,564,731**	**923,198**	**1,606,106**	**97,278**	**1,035,160**	**-**	**5,226,473**
Net book value at 31 December	**449,351**	**495,802**	**580,865**	**23,001**	**1,763,969**	**146,221**	**3,459,209**

Assets that are fully depreciated amounted to KShs 2,473,724,661 (2022 – KShs 2,296,726,366). If depreciation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to KShs 588,502,437 (2022 – KShs 550,413,384).

OUR FINANCIALS (Continued)
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24. PROPERTY AND EQUIPMENT (Continued)

Company 2022	Leasehold improvements KShs'000	Furniture, fittings, fixtures and office equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Right of use asset KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost							
At 1 January	1,929,758	1,258,361	1,667,710	99,998	2,184,835	120,401	7,261,063
Additions	13,343	60,544	25,052	-	10,309	200,571	309,819
Disposals	(1,045)	(7,538)	(677)	(4,159)	(169,855)	-	(183,274)
Reclassification/internal transfers	20,567	40,039	193,225	-	-	(253,831)	-
At 31 December	**1,962,623**	**1,351,406**	**1,885,310**	**95,839**	**2,025,289**	**67,141**	**7,387,608**
Depreciation							
At 1 January	1,174,750	754,261	944,241	83,801	811,400	-	3,768,453
On disposals	(911)	(6,156)	(677)	(3,998)	(169,855)	-	(181,597)
Charge for the year	208,027	100,716	309,682	8,595	229,779	-	856,799
At 31 December	**1,381,866**	**848,821**	**1,253,246**	**88,398**	**871,324**	**-**	**4,443,655**
Net book value at 31 December	**580,757**	**502,585**	**632,064**	**7,441**	**1,153,965**	**67,141**	**2,943,953**

OUR FINANCIALS (Continued)
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25. INTANGIBLE ASSETS

(a) Goodwill
The key judgements required in the determination of whether or not a goodwill balance is impaired:

- the level at which goodwill is allocated – consistent with prior periods the Cash Generated Units (CGUs) to which goodwill is allocated are the Group's revenue generating segments that benefit from relevant historical business combinations generating goodwill.
- determination of the carrying amount of each CGU which includes an allocation, on a reasonable and consistent basis of corporate assets and liabilities that are not directly attributable to the CGUs to which goodwill is allocated.
- assessment of the recoverable amount of each CGU used to determine whether the carrying amount of goodwill is supported is based on judgements including:
  - selection of the model used to determine the fair value – the Group has used the modified dividend approach to estimate the fair value; and
  - selection of the key assumptions in respect of future maintainable earnings, the P/E multiple applied, including selection of an appropriate comparator group and determination of an appropriate control premium, and costs of disposal as described above.

The assessment of the recoverable amount of each CGU has been made within the context of the prevailing market conditions on both earnings and asset prices and reflects expectations of future events that are believed to be reasonable under the circumstances.

Group	2023 KShs'000	2022 KShs'000
I&M Bank (T) Limited	671,161	567,081
Youjays Insurance Brokers Limited	232,284	232,284
Balance as 31 December	**903,445**	**799,365**

Movement of Goodwill	2023 KShs'000	2022 KShs'000
At 1 January	799,365	758,788
Exchange differences	104,080	40,577
At 31 December	**903,445**	**799,365**

The recoverable amounts for I&M Bank (T) Limited has been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the Cash Generating Unit (CGU). The present value of the recoverable amounts on I&M Bank LIMITED share were KShs 5.623 billion (2022 – KShs 5.623 billion) for I&M Bank (T) Limited. No impairment losses were recognised during 2023 (2022 – Nil), because the recoverable amounts of these CGUs were determined to be higher than their carrying amounts. Applying a pretax discount rate of 23% or 26% on the modified free cash flows, there is no impairment sighted.

The key assumptions used in the calculation of value in use were as follows:

	I&M Bank (T) Limited 2023	Youjays Insurance Brokers Limited 2023
5 year risk free rate	11.16%	11.95%
Risk premium	12.30%	9.49%
Terminal growth rate	4.25%	4.00%
Discount rate	21.00%	21.00%
Exchange rate	KShs 1 = TZs 15.99	KShs 1 = Kshs 1

	2022	2022
5 year risk free rate	9.18%	10.86%
Risk premium	12.30%	9.49%
Terminal growth rate	3.00%	4.00%
Discount rate	21.00%	21.00%
Exchange rate	KShs 1 = TZs 18.92	KShs 1 = Kshs 1

OUR FINANCIALS (Continued)

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25. INTANGIBLE ASSETS (Continued)

(a) Goodwill (Continued)

The discount rate utilised was the risk-free rate on the rate of 5 year government bonds issued by the government in the respective markets and in the same currency as the cash flows.

These cash flows have been projected for 5 years for I&M Bank (T) Limited based on the approved Business plans of the respective units. For I&M Bank (T) Limited the terminal growth rates estimated were 4.30%.

In the opinion of the Directors, there was no impairment of goodwill during the year.

(b) Computer software

Group 2023	Software KShs'000	Other Intangible Assets KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost				
At 1 January	4,874,648	-	333,564	5,208,212
Additions	214,191	-	776,832	991,023
Reclassification from capital work in progress	783,554	-	(783,554)	-
Transfer from investment in subsidairy	-	45,516	-	45,516
Translation differences	105,134	-	-	105,134
At 31 December	**5,977,527**	**45,516**	**326,842**	**6,349,885**
Amortisation				
At 1 January	2,771,349	-	-	2,771,349
Transfer from investment in subsidairy	-	9,103	-	9,103
Amortisation for the year	856,297	2,276	-	858,573
Translation differences	77,082	-	-	77,082
At 31 December	**3,704,728**	**11,379**	**-**	**3,716,107**
Carrying amount at 31 December	**2,272,799**	**34,137**	**326,842**	**2,633,778**

Group 2022	Software KShs'000	Other Intangible Assets KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost				
At 1 January	3,768,152	-	481,174	4,249,326
Additions	62,944	-	857,714	920,658
Reclassification from capital work in progress	1,005,324	-	(1,005,324)	-
Translation differences	38,228	-	-	38,228
At 31 December	**4,874,648**	**-**	**333,564**	**5,208,212**
Amortisation				
At 1 January	2,105,029	-	-	2,105,029
Amortisation for the year	642,748	-	-	642,748
Translation differences	23,572	-	-	23,572
At 31 December	**2,771,349**	**-**	**-**	**2,771,349**
Carrying amount at 31 December	**2,103,299**	**-**	**333,564**	**2,436,863**

OUR FINANCIALS (Continued)

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25. INTANGIBLE ASSETS (Continued)

(b) Computer software (Continued)

Company 2023	Computer Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
At 1 January	4,369,321	280,059	4,649,380
Additions	137,374	776,832	914,206
Reclassification from capital work in progress	783,554	(783,554)	-
At 31 December	**5,290,249**	**273,337**	**5,563,586**
Amortisation			
At 1 January	2,376,964	-	2,376,964
Amortisation for the year	754,143	-	754,143
At 31 December	**3,131,107**	**-**	**3,131,107**
Carrying amount at 31 December	**2,159,142**	**273,337**	**2,432,479**

Company 2022	Computer Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
At 1 January	3,307,589	427,669	3,735,258
Additions	56,408	857,714	914,122
Reclassification from capital work in progress	1,005,324	(1,005,324)	-
At 31 December	**4,369,321**	**280,059**	**4,649,380**
Amortisation			
At 1 January	1,818,622	-	1,818,622
Amortisation for the year	558,342	-	558,342
At 31 December	**2,376,964**	**-**	**2,376,964**
Carrying amount at 31 December	**1,992,357**	**280,059**	**2,272,416**

The Company's computer software with a gross value of KShs 1,338,172,622 (2022 – KShs 979,759,575) are fully amortised but still in use. If amortisation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to KShs 267,634,524 (2022 – KShs 195,951,915).

OUR FINANCIALS (Continued)
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26. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2023 and 31 December 2022 are attributable to the following:

Group	Balance at 1 January KShs'000	Prior year adjustment KShs'000	Recognised in equity KShs'000	Translation differences KShs'000	Recognised in profit or loss KShs'000	Balance at 31 December KShs'000
2023:						
Equipment	30,977	81,211	-	(4,686)	18,080	125,582
Right of use asset	(30,152)	2	-	3,516	53,574	26,940
General provisions	2,069,329	(33,744)	-	117,730	262,065	2,415,380
Impairment allowances	4,147,985	188	-	-	863,166	5,011,339
Fair value reserves	1,490,830	-	726,406	(863)	-	2,216,373
	7,708,969	**47,657**	**726,406**	**115,697**	**1,196,885**	**9,795,614**
2022:						
Equipment	55,945	(50,831)	-	(2,701)	28,564	30,977
Right of use asset	(19,626)	-	-	1,080	(11,606)	(30,152)
General provisions	1,419,734	(10,803)	-	37,080	623,318	2,069,329
Impairment allowances	3,207,630	(94)	-	-	940,449	4,147,985
Fair value reserves	212,970	-	1,278,249	(389)	-	1,490,830
	4,876,653	**(61,728)**	**1,278,249**	**35,070**	**1,580,725**	**7,708,969**

OUR FINANCIALS (Continued)
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26. DEFERRED TAX ASSETS (Continued)

Company	Balance at 1 January KShs'000	Prior year adjustment KShs'000	Recognised in equity KShs'000	Recognised in profit or loss KShs'000	Balance at 31 December KShs'000
2023:					
Equipment	34,103	81,211	-	(9,299)	106,015
Right of use asset	(19,682)	2	-	49,859	30,179
General provisions	1,457,282	(33,744)	-	236,484	1,660,022
Impairment allowances	4,121,224	188	-	863,918	4,985,330
Fair value reserves	1,496,604	-	726,406	-	2,223,010
	7,089,531	**47,657**	**726,406**	**1,140,962**	**9,004,556**
2022:					
Equipment	67,890	(50,831)	-	17,044	34,103
Right of use asset	(3,957)	-	-	(15,725)	(19,682)
General provisions	1,054,364	(10,803)	-	413,721	1,457,282
Impairment allowances	3,186,822	(94)	-	934,496	4,121,224
Fair value reserves	103,006	-	1,393,598	-	1,496,604
	4,408,125	**(61,728)**	**1,393,598**	**1,349,536**	**7,089,531**

OUR FINANCIALS (Continued)

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27. (a) DUE FROM RELATED PARTIES

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
I&M Realty Limited	550,522	637,757	549,905	637,139
I&M Bank (T) Limited	-	-	2,226,105	227,947
I&M Bank (Rwanda) PLC	1,435,315	131,127	1,435,315	131,127
I&M Bank (Uganda) Limited	961,646	13,441	961,646	13,441
	2,947,483	**782,325**	**5,172,971**	**1,009,654**

27. (b) DUE TO RELATED PARTIES

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Giro Limited	761,345	134,410	761,345	134,410
I&M Group PLC	2,408,179	864,255	2,408,179	864,255
I&M Realty Limited	39,564	91,345	39,564	91,345
I&M Bank (T) Limited	-	-	227,447	138,131
I&M Bank (Rwanda) PLC	407,742	122,411	407,742	122,411
I&M Bancassurance Intermediary Limited	-	-	160,310	43,576
Investment & Mortages Nominees limited	1,090	-	1,090	-
I&M Burbidge Capital Limited	10,153	32,611	10,153	32,611
I&M Capital Limited	3,941	20,755	3,941	20,755
I&M Bank (Uganda) Limited	1,067,435	466,655	1,067,435	466,655
	4,699,449	**1,732,442**	**5,087,206**	**1,914,149**

The balances mostly relate to deposits and balances held with I&M Bank LIMITED

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

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28. OTHER ASSETS

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Prepayments	661,651	471,826	548,444	378,410
Other receivables	3,298,205	3,127,918	2,933,516	2,960,231
	3,959,856	**3,599,744**	**3,481,960**	**3,338,641**

29. DEPOSITS FROM BANKS

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Due within 90 days	21,624,168	9,920,971	20,564,865	8,453,748
Due after 90 days	5,653	1,261,743	5,652	1,261,743
	21,629,821	**11,182,714**	**20,570,517**	**9,715,491**

30. DEPOSITS FROM CUSTOMERS

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Government and Parastatals	864,001	925,802	864,001	925,802
Private sector and individuals	340,290,589	256,915,710	305,131,190	232,880,994
	341,154,590	**257,841,512**	**305,995,191**	**233,806,796**

31. OTHER LIABILITIES

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Accruals	1,909,363	1,757,948	1,706,036	1,598,086
Other accounts payables	1,338,930	2,313,175	938,584	1,930,277
Lease liability	2,098,743	1,113,700	1,584,345	986,650
Provisions for loan commitments*	295,822	150,021	282,789	147,717
Bankers cheques payable	181,613	109,611	161,083	92,922
	5,824,471	**5,444,455**	**4,672,837**	**4,755,652**

*This represents impairment allowance for loan commitments and financial guarantee contracts.

Lease liability

Below is the analysis of the lease liabilities during the year:

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Expected to be settled within 12 months after the year end	342,497	257,443	258,476	184,497
Expected to be settled more than 12 months after the year end	1,756,246	856,257	1,325,869	802,153
	2,098,743	**1,113,700**	**1,584,345**	**986,650**
Payments of principal portion of the lease liability	361,642	323,979	293,863	279,194
Interest paid on lease liabilities	145,731	145,626	130,137	129,922
	507,373	**469,605**	**424,000**	**409,116**

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31. OTHER LIABILITIES (Continued)
Lease liability (Conntinued)

Lease liability movement	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Balance at 1 January	1,113,700	1,400,775	986,650	1,255,902
Additions	1,335,276	45,789	891,558	9,942
Interest expense	145,731	145,626	130,137	129,922
Lease payments	(507,373)	(469,605)	(424,000)	(409,116)
Translation difference	11,409	(8,885)	-	-
Balance at 31 December	**2,098,743**	**1,113,700**	**1,584,345**	**986,650**

Amount recognized in profit or loss	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Interest on lease liabilities (Note 8)	145,731	145,626	130,137	129,922
Depreciation of right to use asset (Note 24)	316,973	288,447	284,962	229,779
	462,704	**434,073**	**415,099**	**359,701**

Extension options

Some leases of office premises contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

32. LONG TERM BORROWINGS

	Group	
	2023 KShs '000	2022 KShs '000
Less than one year	204,921	1,392,184
One to five years	-	171,759
	204,921	**1,563,943**

The Group's outstanding long-term borrowings constituted the following in I&M Bank (T) Limited:

The long term borrowing of TZS 3,250 million granted in two tranches of which (i) TZS 1,800 million was granted on 12th August 2022 with an effective rate of 7.5% for tenure of 5 years and (ii) TZS 1,450 million was granted on 30 August 2022 with an effective rate of 7.5% for a tenure of 3 years. The interest on the facility is repayable on a quarterly basis and the principal at maturity. The outstanding balance as at 31st December 2023 was TZS 3.25 billion (2022: TZS 3.25 billion).

	Company	
	2023 KShs '000	2022 KShs '000
Less than one year	-	**884,444**

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32. LONG TERM BORROWINGS (Continued)

Loan movement schedule

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
At 1 January	1,563,943	3,964,050	884,444	2,431,625
Payments on principal	(1,500,690)	(2,892,781)	(999,286)	(1,762,222)
Payments on interest	(104,945)	(158,914)	(37,125)	(84,870)
Interest payable	41,721	76,050	-	3,372
Translation differences	204,892	575,538	151,967	296,539
At 31 December	**204,921**	**1,563,943**	**-**	**884,444**

The fair value of the long-term borrowings are disclosed in Note 6. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the Directors expect would be available at the year-end date. The repricing of the borrowings is done either quarterly or biannually based on the agreed loan covenant.

33. SUBORDINATED DEBT

Group & Company	2023 KShs '000	2022 KShs '000
Less than one year	388,240	258,946
One to five years	12,143,950	7,999,248
Over five years	-	1,541,875
	12,532,190	**9,800,069**

The subordinated debt would in the event of winding up of the respective companies be subordinated to the claims of depositors and all other creditors. The Group has not had any defaults of principal or interest with respect to these debts.

Group & Company	2023 KShs '000	2022 KShs '000
At 1 January	9,800,069	8,924,816
Payments on interest	(624,532)	(365,520)
Interest payable	388,117	258,983
Exchange differences	2,968,536	981,790
At 31 December	**12,532,190**	**9,800,069**

The Company's subordinated debt constituted the following:

(i) USD 27,350,000 medium term unsecured subordinated fixed and floating rate notes issued on 14 August 2019 for a tenor of 5 years with redemption on the maturity date.

(ii) USD 50,000,000 subordinated facility issued on 28th June 2021 for a tenor of 6 years 9 months with redemption in four consecutive approximately equal instalments starting 15 Sept 2026 and on each interest payment date thereafter until and including 15 Mar 2028.

The fair value of the subordinated debt are disclosed in Note 6. Fair values, are based on discounted cash flows using a discount rate based upon the borrowing rate that the Directors expect would be available at the year-end date. The repricing of the borrowings is done either quarterly or biannually based on the individual agreed covenant.

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34. SHARE CAPITAL AND RESERVES

(a) Share capital

Group & Company	2023 KShs '000	2022 KShs '000
Authorised		
1 January and 31 December - 30,000,000 Ordinary shares of KShs 100 each	**3,000,000**	**3,000,000**
Issued and fully paid		
1 January and 31 December - 29,800,000 Ordinary shares of KShs 100 each	**3,000,000**	**3,000,000**

All the ordinary shares rank equally with regard to the Company's residual assets, are entitled to dividends from time to time and are entitled to one vote per share at general meetings of the Company.

(b) Major shareholders and share premium
The major shareholders at 31st December 2023 and 2022 were as follows:

	%	Number of Shares	Share Capital KShs'000	Share Premium KShs'000
I&M Group PLC (2023)	100	30,000,000	3,000,000	5,531,267
At 31 December	**100**	**30,000,000**	**3,000,000**	**5,531,267**
I&M Group PLC (2022)	100	29,800,000	2,980,000	5,531,267
Issue of shares	-	200,000	20,000	-
At 31 December	**100**	**30,000,000**	**3,000,000**	**5,531,267**

(c) Statutory credit risk reserve
Where impairment losses required by legislation or regulations exceed those computed under IFRS Accounting Standards, the excess is recognised as a statutory reserve and accounted for as an appropriation of retained profits and the reverse for reductions. These reserves are not distributable. This is disclosed in the statement of changes in equity appearing on pages 53 - 55.

(d) Translation reserve
The translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations (namely I&M Bank (T) Limited - Tanzania) into the functional currency of the parent company. This is disclosed in the statement of changes in equity appearing on pages 53 - 55.

(e) Fair value reserve
The fair value reserve includes the cumulative net change in the fair value of FVOCI investments, excluding impairment losses, until the investment is derecognised. This is disclosed in the statement of changes in equity appearing on pages 53 - 55.

(f) Dividend
The following dividend were declared and paid by the Company. No withholding tax was applied since dividend paid to a resident company with shareholding above 12.5% is exempted from tax.

	2023 KShs '000	2022 KShs '000
Kshs 210 per qualifying ordinary share (2022: KShs 142)	6,300,000	3,993,200
	6,300,000	**3,993,200**

After reporting date, the following dividends were proposed by the board of Directors. The dividends have not been recognized as liabilities and there no tax consequences.

	2023 KShs '000	2022 KShs '000
KShs 135 per qualifying ordinary share (2022: KShs 210)	**4,050,000**	**6,300,000**

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

35. NOTES TO THE STATEMENT OF CASH FLOWS

Group	Note	2023 KShs'000	2022 KShs'000	Change KShs'000
Cash and balances with central banks – excluding CRR	17	9,386,994	4,984,543	4,402,451
Items in the course of collection	18	343,983	433,996	(90,013)
Loans and advance to banks	19	44,340,965	10,634,142	33,706,823
		54,071,942	16,052,681	38,019,261

Company	Note	2023 KShs'000	2022 KShs'000	Change KShs'000
Cash and balances with Central Bank of Kenya – excluding CRR	17	8,110,750	3,334,311	4,776,439
Items in the process of collection	18	316,197	433,996	(117,799)
Loans and advances to banks	19	41,859,511	9,637,727	32,221,784
		50,286,458	13,406,034	36,880,424

36. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Group at 31st December 2023. No provision has been made as professional advice and management view indicates that it is unlikely that any significant loss will arise.

(b) Contractual off-balance sheet financial liabilities

In the ordinary course of business, the Group conducts business involving guarantees, acceptances and letters of credit. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

	Group		Company	
	2023 KShs '000	2022 KShs '000	2023 KShs '000	2022 KShs '000
Contingencies related to:				
Letters of credit	69,621,123	40,889,019	68,553,009	39,053,231
Guarantees	23,917,639	22,281,947	21,027,490	19,712,430
Other credit commitments	27,675,825	22,755,748	25,171,255	20,600,139
	121,214,587	**85,926,714**	**114,751,754**	**79,365,800**
Commitments related to:				
Outstanding spot/forward contracts	50,337,467	42,105,421	50,337,467	42,105,421
	171,552,054	**128,032,135**	**165,089,221**	**121,471,221**

Guarantees are generally written by a bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

Letters of credit commit the Bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

An *acceptance* is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented and reimbursement by the customer is almost immediate.

Forward contracts are arrangements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

The fair values of the respective currency forwards are carried on the face of the balance sheet.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2023

37. CONTINGENT LIABILITIES

On completion of an excise duty audit by Kenya Revenue Authority (KRA), covering the period from 1 January 2014 to 30 September 2018, KRA raised an additional excise duty assessment for an amount KShs 283,512,550 on the Bank on 17 January 2019. The Bank objected to all items which were in the Directors' view erroneously assessed. The KRA subsequently confirmed the assessment on 15 April 2019 for an amount of KShs 231,220,414. The Bank lodged an appeal against this assessment to the Tax Appeal Tribunal. The matter was heard on 16 February 2021 and the tribunal ruled in favour of the bank on 4 March 2022. The KRA appealed the decision of the tax appeal tribunal and the matter is currently in the High Court.

On completion of withholding tax and value added tax duty audit by Kenya Revenue Authority (KRA), covering the period from 1 January 2015 to 31 December 2017, KRA raised an additional assessment for an amount of KShs 395,262,008 on the Bank on 14 December 2020. The Bank objected on 13th January 2022 to all items which were in the Directors' view erroneously assessed. The KRA subsequently issued an invalidation notice on 27 May 2021. The Bank lodged an appeal against this assessment to the Tax Appeal Tribunal. The tribunal issued a ruling in favour of the bank on 11 February 2022. The KRA has appealed the decision of the tax appeal tribunal and the matter is currently in the High Court.

Based on the prevailing Tax Procedure Act that defines, inter alia, timeframes in conduct of tax assessments, the Directors in consultation with I&M Bank LIMITED's legal and tax advisors are of the opinion the ruling for the two cases will be in I&M Bank LIMITED's favour.

38. ASSETS PLEDGED AS SECURITY

The below are government securities held under lien in favour of the Central Banks.

Group & Company	2023 KShs '000	2022 KShs '000
Intraday Liquidity Facility	**6,815,789**	**4,000,000**

39. RELATED PARTY TRANSACTIONS

In the normal course of business, the Group enters into transactions with related parties. All the loans and advances and deposits are issued or received from the related parties at market interest rates. There were no provisions held towards impairment of any of the advances to related parties. Related parties within this group are I&M Bank LIMITED, I&M Bank T Limited, and I&M Bancassurance Intermediary Limited.

			2023 KShs '000	2022 KShs '000
a.	**Transactions with directors/shareholders**			
	(i)	Loans to directors/shareholders	**21,146**	**940**
		Interest Income from loans to directors/shareholders	930	341
	(ii)	Deposits from directors/shareholders	**2,760,985**	**1,061,149**
		Interest expense on deposits from directors/shareholders	158,640	35,502
b.	**Transactions with related companies**			
	(i)	Loans to related companies (virtue of common directorship)	**2,236,455**	**1,285,175**
		Interest income from loans to related companies	256,718	127,455
	(ii)	Deposits from related companies (virtue of common directorship)	**690,996**	**606,916**
		Interest expense on deposits from related companies	9,072	13,788
	(iii)	Amounts due from group companies subsidiaries	**106,576**	**7,784**
		Interest income on amounts due from subsidiaries	-	-
	(iv)	Amounts due to group companies subsidiaries	5,087,080	1,912,152
		Interest expense on amounts due from subsidiaries	-	-
	(v)	Preference shares in I&M Realty Limited (sister company)	**3,800,000**	**3,800,000**
	(vi)	Preference shares Giro Limited (sister company)	**540,000**	**540,000**
	Staff loans		**2,694,892**	**2,104,064**
	Interest earned on these loans was KShs		12,639	144,352

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

39. RELATED PARTY TRANSACTIONS (Continued)

		2023 KShs '000	2022 KShs '000
d.	Management fees received	10,288	32,250
e.	Management compensation (Short term benefits)	298,940	202,321

In the normal course of business, the Company enters into transactions with related parties/sister companies (Note 27). All the loans and advances and deposits are issued or received from the related parties are market interest rates. There were no provisions held towards impairment of any of the advances to related parties.

Loans to staff and senior management are at preferential rates for both secured and unsecured facilities while loans and deposit to directors and related companies are at market rates. Loan and deposits tenure varies based on agreed terms as at time of contracting.

40. CAPITAL COMMITMENTS

	2023 KShs '000	2022 KShs '000
Group	2,406,152	1,392,334
Company	1,634,544	1,248,365

These are capital commitments on leasehold improvements and digitization initiatives being adopted by the Group.

41. OTHER DISCLOSURES

(a) Operational risk

The overall responsibility of managing operational risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors. The Board through the Board Risk Committee, issues policies that guide management on appropriate practices of operational risk mitigation.

An independent Risk Manager assures the Board Risk Committee of the implementation of the said policies.

The following are key measures that the Group undertakes in managing operational risk:

- Documentation of procedures and controls, including regular review and updates to reflect changes in the dynamic business environment.
- Appropriate segregation of duties, including the independent authorisation of transactions
- Reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Reporting of operational losses and ensuring appropriate remedial action to avoid recurrence.
- Development and implementation of Business Continuity and Disaster Recovery Plans
- Training and professional development of employees to ensure they are well equipped to identify and mitigate operational risks in a timely manner.
- Establishment of ethical practices at business and individual employee's level.
- Implementation of Risk mitigation parameters, including insurance where this is considered effective.

The entire operational risk management framework is subjected to periodic independent audits (internal) in order for the bank to obtain an independent opinion on the effectiveness and efficiency of the framework. Further, the findings of the Internal Audit department are reviewed by the Board Audit Committee and recommendations made implemented in line with the agreed timeframe.

(b) Compliance and regulatory risk

Compliance and regulatory risk includes the risk of bearing the consequences of non-compliance with regulatory requirements. The compliance function is responsible for establishing and maintaining an appropriate framework of Group compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

(c) Environmental and social risks

Environmental and social risks are the risks that the Group could bear the consequences of socio-environmental fall-out of transactions. Such risks could arise from failure of the bank to assess the impacts of activities (of both the group and its clients) which could harm the environment or have negative social impact.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

41. OTHER DISCLOSURES (Continued)

(c) Environmental and social risks (continued)

The Group is aware that it has a responsibility to ensure that its internal practice and its lending activities do not have negative environmental and social impacts and is thus committed to ensure that such risks are sufficiently managed through its environmental and social management policy and by adopting the country's labour and environmental laws. The Group also adheres to international best practice (IFC performance standards and ILO standards as ratified by the Kenya Government).

An environmental and social management system is being put in place to ensure due diligence and monitoring of the environmental and social risk is done efficiently. Compliance to these laws is monitored by the compliance function.

The Directors are responsible for selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates.

(d) Climate-related risks

The Group is acutely aware of the substantial impacts climate change can have on both the financial and non-financial aspects of our operations, strategic decisions, and planning. In response, we are purposefully aligning our efforts with both national and international climate goals, such as the Paris Agreement and Nationally Determined Contributions (NDC), across the regions where we operate.

With sustainability as a central focus, we are committed to implementing recommendations from the IFRS S2 on climate related risk management, while also staying responsive to evolving standards and frameworks, such as the Taskforce on Nature-related Financial Disclosures (TNFD).

Our governance of climate-related risks and opportunities is seamlessly integrated within the Group's enterprise risk management framework. This integration allows us to manage climate risks not only as standalone issues but also in their intersections with conventional risks. Through these efforts, we have developed comprehensive strategic objectives that incorporate climate risk considerations into decision-making processes across all business operations.

The Board of Directors plays a pivotal role in overseeing the implementation of our climate risk project for 2023/2024, underscoring our firm commitment to integrating climate-related risks and opportunities into the Group's business strategies. This commitment is evidenced by both Board oversight and management responsibility, ensuring proactive measures are in place to mitigate and adapt to the impacts of climate change across our value chain. Constant monitoring and performance assessment against climate-related targets further demonstrate our dedication to this cause.

(e) Environmental, Social and Governance (ESG) Principles

The Group is committed to a profound understanding and active management of Environmental, Social, and Governance (ESG) risks and opportunities. This commitment stems from its recognition of the significant impact that nature, climate change, social inequalities, and environmental degradation have on its operations and the broader community. We see these factors not only as potential threats to business resilience but also as challenges to its capability to support and invest in vulnerable sectors. This has led the Group to underscore the critical importance of sustainable business practices, emphasizing environmental stewardship, social responsibility, and ethical governance as core elements of its operational and strategic blueprint.

The integration of ESG and climate considerations into the enterprise risk management framework marks a significant step in reinforcing our dedication to cultivating a risk-aware culture. This is achieved through several key initiatives:

- Establishing a robust governance structure to oversee ESG risks and opportunities, ensuring accountability across our four lines of defense model.
- Formulating and refining guidelines to adeptly identify, assess, measure, and monitor ESG risks within the Group.
- Defining essential ESG risk metrics, alongside Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs), to ensure comprehensive risk monitoring and value enhancement.
- Enhancing the existing ESG risk assessment processes across our value chain, ensuring a deep integration of ESG considerations.
- Promoting an ESG-aware culture throughout the Group through targeted training and awareness initiatives.

Our strategic approach to mapping out and addressing ESG risks and opportunities is designed to support sustainable business practices fundamentally. This approach is aligned with our ambitious goal to positively impact 10 million lives from 2024 to 2026. At the heart of this goal is our commitment to providing financial products and services that bolster green investments, specifically focusing on renewable energy, energy efficiency, e-mobility, and agriculture, among other sectors.

Moreover, we are actively expanding our range of lending products, specifically tailored to address the needs of socially and demographically diverse groups, thereby enhancing financial inclusion for underserved communities.

A tangible manifestation of this commitment is the strategic expansion of I&M Bank Kenya's branch network, designed to improve accessibility to our banking services.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements
For the year ended 31 December 2023

41. OTHER DISCLOSURES (Continued)

(e) Environmental, Social and Governance (ESG) Principles (Continued)

As we scale our operations, our focus is broadening to include the optimization of sustainable operations through careful resource management, the adoption of sustainable procurement practices, and the empowerment of communities via the I&M Foundation and CSR initiatives across our subsidiaries. To ensure positive environmental and social outcomes, we are investing in ongoing training programs to boost our staff's ability to effectively manage both emerging and existing ESG and climate-related risks and opportunities.

We adopt a collaborative approach to ESG and climate risk management, recognizing our collective responsibility towards social inclusivity and environmental sensitivity in every facet of our business operations. This collaborative stance is geared towards fostering information sharing, ensuring balanced and uniform reporting, and delivering tangible outcomes that contribute to sustainable development. Central to our strategy is the adherence to international standards and guidelines, including the UN Global Compact, IFC performance standards, ILO labor conventions, and established sustainability and climate risk reporting guidelines, such as the IFRS SI & S2. Moreover, our ESG and climate risk management objectives are in line with the Nationally Determined Contributions (NDCs) specific to our operational markets, the Paris Agreement, and other relevant national and international policy frameworks.

Sustainable Finance Practices

The Group recognizes sustainable lending practices as a cornerstone of our day-to-day operations. This recognition is evidenced by the integration of an Environmental and Social (E&S) risk management system into the credit appraisal process. Such integration ensures that E&S risks are systematically evaluated alongside other risks before any credit facility disbursement, heightening customer awareness of our E&S standards. This heightened awareness has led to improved E&S performance in our operations, aligning with regulations and strengthening our relationships with customers. We are committed to assisting our customers in addressing non-conformities and promoting the adoption of best industry practices.

The incorporation of E&S risk and opportunity management has spurred business growth, allowing us to develop customized products and services centered on positive social and environmental outcomes. Our sustainable finance initiatives include providing facilities to support the installation of Effluent Treatment Plants for water treatment and recycling, as well as facilitating solar-related energy infrastructure to ensure energy efficiency. This symbiotic relationship has fostered mutual business growth and enhanced environmental and social practices, contributing to the protection of natural resources, the utilization of renewable energy sources, and the reduction of our overall environmental footprint and operational costs.

42. EVENTS AFTER REPORTING DATE

There are no material events or circumstances that have arisen between the reporting date and the date of this report.


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