Absa Bank Kenya PLC

Integrated Report and Annual Financial Statements 2022

Icons used in this report

The six capitals model

Financial capital
Our shareholders' equity and funding from investors and customers, which are used to support our business and operational activities, including credit extension.

Manufactured capital
Our business structure and operational processes, including our physical and digital infrastructure, that provide the framework and mechanics of how we do business and create value.

Human capital
Our culture and our people, investing in their development and our collective knowledge, skills and experience to enable delivery of innovative and competitive solutions for our customers.

Social and relationship capital
Our citizenship and strong stakeholder relationships, including rapport with the communities in which we operate, recognising the role that the banking sector plays in building a strong and thriving ecosystem.

Intellectual capital
Our brand and franchise value, research and development, innovation capacity, reputation and strategic partnerships, as well as the products that we offer to our customers.

Natural capital
Our impact on natural resources through our operations and business activities.

Stakeholders

Customers | *Employees and unions* | *Society and communities* | *Partners* | *Regulators and government* | *Investors*

Stakeholder engagement is a value-creating process that is of critical importance in furthering Absa's growth ambitions. Engaging with stakeholders in a structured and well-coordinated manner, through meaningful, transparent communication, enables us to cultivate relationships that can serve as valuable capital in both good and challenging times. It is a process that provides important information about our business as well as about our social, political and physical environment. Principle 16 of King IV* advocates for the adoption of a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time. The range and extent of engagements is vast and our approach is informed by the specific stakeholder as well as by the need for engagement.

**King IV Report on Corporate Governance for South Africa, 2016™*

Sustainable Development Goals (SDGs)

4 QUALITY EDUCATION — SDG 4
7 AFFORDABLE AND CLEAN ENERGY — SDG 7
8 DECENT WORK AND ECONOMIC GROWTH — SDG 8
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE — SDG 9
10 REDUCED INEQUALITIES — SDG 10
11 SUSTAINABLE CITIES AND COMMUNITIES — SDG 11
12 RESPONSIBLE CONSUMPTION AND PRODUCTION — SDG 12
15 LIFE ON LAND — SDG 15
16 PEACE, JUSTICE AND STRONG INSTITUTIONS — SDG 16
17 PARTNERSHIPS FOR THE GOALS — SDG 17

Sustainability Report and Task Force on Climate-related Financial Disclosures (TCFD) report expected in June 2023

Table of contents

About this report

Welcome to our 2022 Integrated Report

This report is our opportunity to present our value creation journey to date, offering insight into how we have engaged in delivering on our strategy, transforming our business to be locally relevant and future fit, and creating value by bringing possibilities to life and being a "Force for Good".

Integrated thinking

Integrated thinking underpins the way in which we manage our business and reporting by taking into consideration the capitals that we use or affect and trade-offs made to achieve our strategy. It takes into account the connectivity and interdependencies between the range of factors that affect our ability to create value over time. An integrated approach enables us to focus on maximising value creation and preservation while minimising erosion as we manage our environmental, social and governance (ESG) impacts, responding to legitimate stakeholder needs and interests and navigating material external factors, risks and opportunities.

Value creation

Value creation, preservation and erosion result from the application of our capitals in pursuit of our strategic intent and the eventual outputs and outcomes achieved for our stakeholders. Sustainable value creation is foremost as we execute our strategy with a primary focus on our stakeholders, including society, and is underpinned by our purpose.

Material matters

This report provides context to what we deem our material matters – those matters with the ability to significantly influence value creation over the short, medium and long term. These matters inform our strategy and influence our approach to managing risks and pursuing opportunities. The determination and assessment of materiality to the business is an ongoing process driven by both external and internal reviews. This is defined through a four-step process of identifying, validating, applying and assessing materiality. Our materiality determination process is discussed in further detail on page 44 - 45.

A material issue is a matter that can or could have a significant effect on value creation in the short, medium or long term.

Identify

Validate and prioritise

We determine the validity of these matters according to their relevance to our current operating context. This includes validating the matters with the highest potential to significantly impact the viability of our business.

Once material matters have been validated, we apply our strategy in order to respond expeditiously.

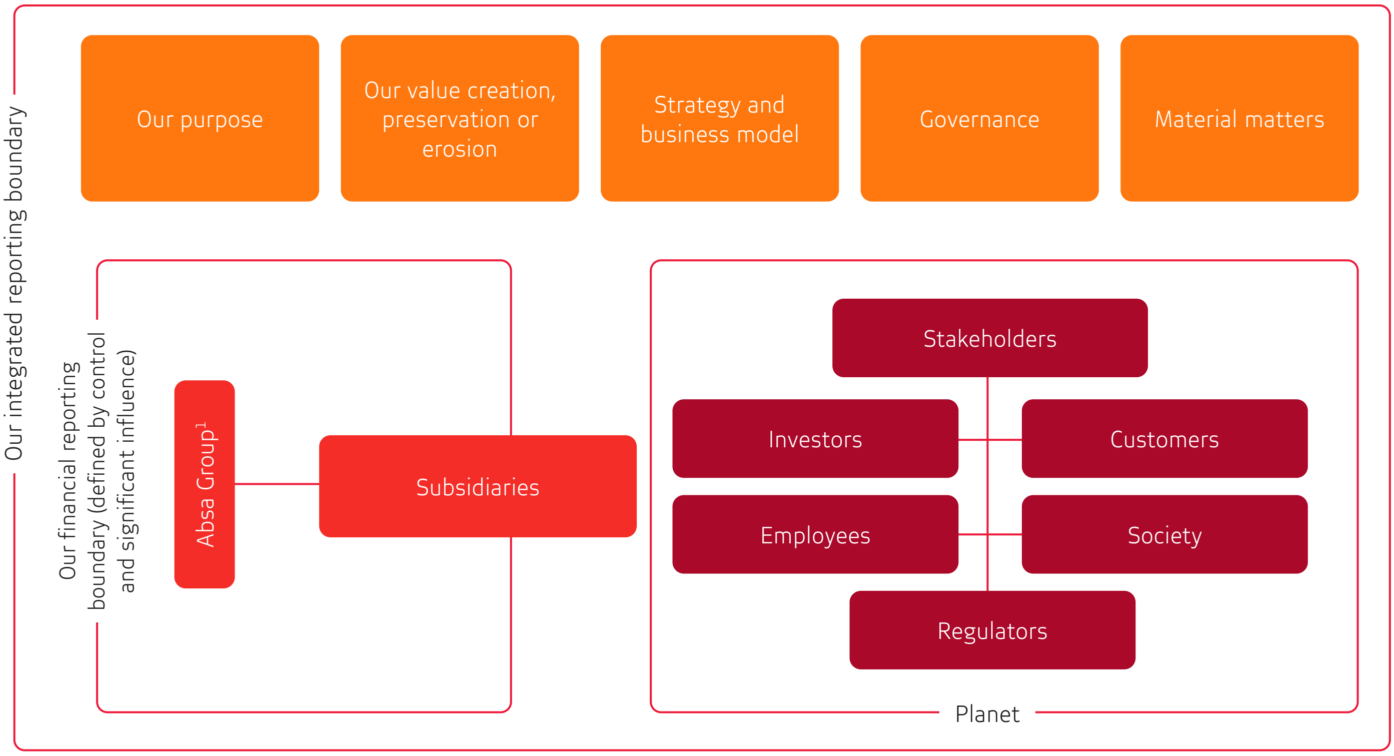
Apply

Assess

Assessing the material issues and their solutions on a continuous basis allows us to ensure that our strategy remains relevant.

Integrated reporting scope and boundary

We aim to provide shareholders with a concise yet sufficiently informed view of Absa's strategy, governance, performance, and prospects in the context of our operating environment, reporting on how value is created, protected or eroded over time. The financial information reporting boundary is defined by control and significant influence over entities as indicated in the diagram below.




absa
G4S

Our bank

Absa Group presence

Absa is a Pan-African group, inspired by the people that we serve and determined to be a globally respected organisation of which Africa can be proud. We are committed to finding tailored solutions to uniquely local challenges, and everything that we do focuses on creating value for our stakeholders.

As a financial services provider, we play an integral role in the economic life of individuals, businesses and nations. Through partnerships in economic development, we help create, grow and protect wealth while playing a shaping role in Africa's growth and sustainability.

We bring possibilities to life

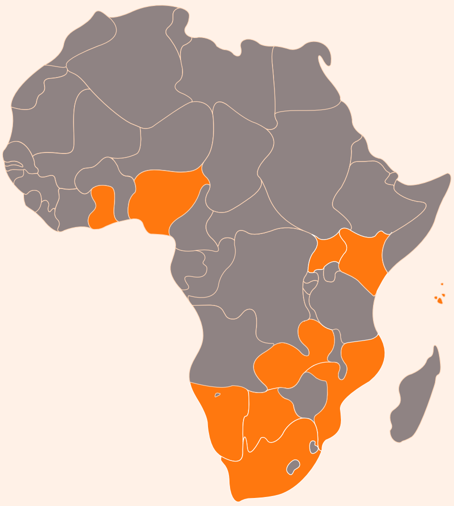
We meet every challenge with tenacity, ingenuity, positivity and creativity by doing things in a way that is unique to our continent.

That is Africanacity

We serve customers through an extensive branch and self-service terminal network, digital channels, financial advisers, relationship bankers and dealerships, originators, alliances and joint ventures.

15 countries	**919** branches	**6 416** ATMs	**35 451** employees	**114 895** point-of-sale (PoS) devices	**3 million** digitally active customers

Country[1]	Employees	PoS	ATMs	Branches	Founded
Botswana	1 073	4 810	114	32	1950
Ghana	1 187	1 361	166	52	1917
Kenya	2 070	5 209	196	83	1916
Mauritius	754	1 585	38	9	1919
Mozambique	767	1 473	93	45	2002
Seychelles	270	2 060	22	6	1959
South Africa	25 719	92 026	5 364	559	1888
Tanzania[2]	1 478	1 418	242	62	1945
Uganda	922	2 124	79	39	1927
Zambia	786	2 720	104	32	1918



Nigeria[3]
14 employees

Namibia[3]
1 employee

Czech Republic[4]
136 employees

UK[5]
30 employees

USA[5]
10 employees

[1] Banks are wholly owned apart from the following where we hold majority stakes: Botswana 67.8%, Kenya 68.5%, Mozambique 98.7%, NBC, Tanzania 55% and Seychelles 99.8%.
[2] Absa Bank Tanzania (ABT) and National Bank of Commerce (NBC) combined.
[3] Representative office.
[4] Technical (IT support resources to the Group).
[5] Securities entity.
[6] South Africa 9.7 million and ARO 1.7 million customers.

Our purpose, values, aspirations and strategy

We are an African group, inspired by the people that we serve, and determined to be a Group that is globally respected and that Africa can be proud of. We are committed to finding local solutions to uniquely local challenges, and everything that we do focuses on adding value.

Our purpose
Empowering Africa's tomorrow, together...one story at a time

Values

We drive high performance to achieve sustainable results.

Our people are our strength.

We are obsessed with the customer.

We have an African heartbeat.

Aspirations
For our people, we will create a culture that appreciates, unifies and differentiates us from our competitors.

For our customers, we will create unprecedented, seamless experiences to engage and delight them.

For society, all our employees will lead with a conscience, doing their best for people and the planet.

Africanicity
Meet every challenge with tenacity, ingenuity, positivity and creativity by doing things in a way that is unique to our continent.

Our impact
We have selected four priority high-impact goals as our primary focus.

SDG 4 | SDG 8 | SDG 10 | SDG 12

Underpinned by our contribution to.

SDG 16 | SDG 17

We plan to include four additional SDGs as part of our future focus.

SDG 7 | SDG 9 | SDG 11 | SDG 15

Our strategy
Outperform

Strategic priorities
- A market leader in business banking
- A leading corporate and investment bank in connecting ecosystems
- A digitally powered business
- A relevant brand driving a sustainable future
- A home of talent and diversity
- A modern-day consumer financial services business

Our attitudes
- Brave
- Passionate
- Ready

Our brand attributes
- Accessible
- Dynamic
- Aspirational

Our way of life
- Easier
- Faster
- Better

Absa ownership and reporting structure

Absa Group Limited structure

Absa Group Limited

Subsidiary	Holding	Subsidiary	Holding
Absa Bank Limited*	100%	Absa Financial Services Limited*	100%
Absa Bank Botswana Limited	67.8%	Absa Bank Ghana Limited	100%
Absa Bank Kenya PLC	68.5%	Absa Bank (Mauritius) Limited	100%
Absa Bank Mozambique, SA	98.1%	Absa Bank (Seychelles) Limited	99.8%
Absa Bank Uganda Limited	100%	Absa Bank Zambia PLC	100%
National Bank of Commerce Limited**	55%	Absa Bank Tanzania Limited	100%

Absa Bank Kenya PLC structure

Shareholder	Holding
Absa Group Limited	68.5%
Other public shareholders	31.5%

Absa Bank Kenya PLC

Subsidiary	Holding
Absa Securities Limited	100%
Absa Kenya Nominees Limited	100%
Absa Asset Management Limited	100%
Absa Bancassurance Intermediary Limited	100%
Absa Pension Services Limited	100%

* In South Africa
** In Tanzania

Absa Bank Kenya PLC at a glance

Absa Bank Kenya PLC (Absa or Bank), through its subsidiary entities, is a financial services provider with over 100 years of experience in the Kenyan market. A tier-one financier, the Bank offers an integrated set of products and services across retail, business and corporate banking, as well as bancassurance, investment, asset and wealth management services. Absa operates through an extensive network of 84 branches, 208 ATMs countrywide, and 60 cash deposit machines supported by internet and mobile banking channels.

Absa is a customer-obsessed and digitally enabled bank that offers best-in-class technology-driven solutions and services. The Bank has built a strong track record in the corporate and retail space enabling business growth, wealth preservation and customer journeys and aspirations.

As one of the largest financial services institutions in the country, Absa is an integral player in the Kenyan economy and society. A purpose-led Bank, Absa seeks to have a shaping role in society and to support the developmental objectives of the country by creating social impact through its core business functions, thus being a force for good.

Key features of the Bank and its performance include:

14.6bn **Headline earnings** (2021: Shs 10.9bn) (2020: Shs 4.2bn)	**303.75bn** **Deposits** (2021: Shs 269bn) (2020: Shs 254bn)	**66.8bn** **Market capitalisation** (2021: Shs 64.4bn) (2020: Shs 64.3bn)
22.9% **Return on equity** (2021: 19.3%) (2020: 14.1%)	**41%** **Cost-to-income ratio** (2021: 46%) (2020: 48%)	**283.6bn** **Net customer loans** (2021: Shs 234bn) (2020: Shs 209bn)
2 070 **Employees** (2021: 1 979) (2020: 1 991)	**50:50** **Employee gender parity** (2021: 51:49) (2020: 52:48)	**1 009 287** **Customers** (2021: 917 507) (2020: 880 307)

Our structure

We deliver a wide range of financial products and services through three customer-facing segments to meet the needs of our customers.

	Corporate and Investment Banking (CIB)	Retail and Business Banking (RBB)
Serving	Global, regional and mid-to-large corporates, including global development organisations, financial institutions and public sector institutions.	Individuals, micro, small and medium enterprises, regional and local corporates, financial institutions, non-governmental organisations and public sector institutions.
Products and services	Specialist solutions across corporate and transactional banking, investment banking, financing, risk management, advisory products and services. Assist with the sourcing of foreign currency, ensuring the choice of the correct product or solution to suit a customer's international transacting needs.	Comprehensive suite of banking and insurance offerings, including transactional banking, card solutions, lending solutions, deposit-taking, risk management, investment products and card-acquiring services.
Focus areas	**Digital platforms:** Integrated, end-to-end digital and technology enablement to support client experience, new products and efficiencies. **Data and analytics:** Transforming data into client value, proactively engaging clients via predictive analytics. **Thriving CIB organisation and people:** Innovation culture, inclusivity, diversity, high performance and productivity, as well as colleague value proposition and experience. **Shaping role in society:** Strategic partnerships with clients, thought leadership, education delivery and reform, and embedding sustainable development goals in core business operations. **Markets:** **Product expansion:** Partnering with other financial institutions on the continent to expand our footprint into francophone West Africa. Collaborating with other Absa Group entities to maximise customers' service delivery. **Digital platforms:** Maximise solution provision in the market through digital platforms and collaborative relations across the Absa Group. **Data and analytics:** Leveraging the capabilities of the recently established Data Office, we look to build on data and scientific insights to expand Customer Value Proposition (CVP). **Thriving markets business and people:** Developing a competitive Employee Value Proposition (EVP) and attracting the best human capital to meet the evolving market needs. **Shaping role in society:** Providing thought leadership and driving policy development through tools such as the Africa Financial Market Index (AFMI), a barometer of how Africa's financial markets have performed and participating in key market associations, including the Bond Market Stakeholders' Forum (BMSF) and the Treasurers' Forum.	**Product relevance:** Rationalise our product offering to solution customer needs in insurance, flexible transactional accounts, mobile micro loans, diversified card offering, unsecured lending and an expanded mortgage outreach. **Sales effectiveness:** Scale our digital fulfilment to improve on productivity and cost efficiency driven by capabilities in data analytics. **Transaction migration:** Develop enhanced digital capabilities that provide flexible and efficient service delivery with a drive for adoption of digital channels by our customers in various segments. **Service and customer experience:** Promote a service culture of easier, faster, better customer service through quarterly service improvement plans at regional and branch level, training, and service recognition awards. **Relationship deepening:** Increase engagements to drive retention and value-based concessionary offerings through portfolio pricing in recognition of loyalty.

Our products, services and channels

Products

Bank accounts

Enjoy fast, easy and affordable banking tailored to suit your specific needs with a range of services and rewards through a variety of current, savings and fixed-deposit accounts suitable for personal, business, corporate, Islamic, prestige and premier banking.

Credit products

Benefit from a broad range of lending products, including personal and business loans, overdraft facilities, credit cards, mortgage, asset finance, and insurance premium financing.

Bancassurance

In collaboration with our bancassurance entity and approved licensed insurers, we offer a comprehensive range of life and short-term insurance options suitable for personal and business needs.

Investment, asset and fund management

Managing client funds to strategically embed them in the appropriate economic cycles for maximum return generation. Take advantage of our wealth solutions through our subsidiary entity.

Wezesha Biashara

SME proposition that funds existing businesses to grow through unsecured loans of up to Shs 10 million, up to 95% asset financing, LPO financing and much more.

Women in Business

Proposition that focuses on supporting women entrepreneurs and enterprises through financing, advisory, capacity building, networking and access to markets.

Services

Absa App

Our mobile app provides the solution to all your basic banking needs, right at your fingertips.

Timiza

Get an instant loan, send money, pay your bills or purchase airtime, and get insurance with the Timiza App.

ChatBanking (Abby)

This is a world-first secure banking service that allows customers to bank using Facebook or WhatsApp.

NovoFX App

Make international payments anytime, anywhere, for free.

Credit card

With an Absa card, you get much more than financial freedom-you are in control.

Internet Banking

If you love living online, internet banking could be the perfect solution for you. Open an Absa account online within 10 minutes and start transacting!

Hello Money *224#

Hello Money Customers dial *224# to access Hello Money without the need for data. Customers can send money to anyone via CashSend, even if the receiving party does not have an Absa account.

Channels

Physical channels

ATMs, branches and POS: Physical footprint of 84 branches, 208 ATMs, 60 cash deposit machines and 5 213 POS devices.

Agency banking

Enjoy a world of convenience with agency banking. Deposit and withdraw money from your Absa account countrywide.

Call centre

Call to speak to an agent on sales, service and general enquiries.

Our value-creating business model

Our inputs – the resources and relationships on which we rely

Financial capital

Our strong capital base, as well as diversified sources of deposits and funding from investors and clients, are used to support our clients, including the extension of credit and facilitating payments and transactions, and to reward shareholders for the capital invested.

Intellectual capital

Our intangible assets, including brand, reputation and franchise value; research and development capabilities; innovation capacity, knowledge and expertise; as well as strategic partnerships, help us grow our business.

Human capital

Our culture and our people, our collective knowledge, and our skills and experience, enable innovative and competitive solutions for our clients and create value for all stakeholders.

Manufactured capital

Our business structure and operational processes, including our fixed assets, such as property and equipment, and digital assets, including digital products and information technology (IT) systems, provide the framework and mechanics of how we do business and create value.

Social and relationship capital

Stakeholder relationships, Including those with communities in which we operate, are central to the environment in which we operate, and we recognise the role that we need to play in building a thriving society as well as a strong financial ecosystem.

Natural capital

The direct use and impact that we have on natural resources through our own operations, including energy, water and climate, and our influence through our business activities.

	Availability, quality and affordability of capitals
• Equity – Shs 2 716m • Deposits – Shs 268 717m • Retained earnings – Shs 47 251m • Market capitalisation-Shs 64.4bn	• Forex liquidity challenges in entire sector • Improved deposits
• Reputable and leading brand • Innovative and new products • Best-in-class cyber security protocol • Investments in data and analytics • Enhanced Timiza platform and agency banking proposition • Strong brand and presence in key markets • Financial, commercial, technical, risk and management skills and expertise at Board, management and employee level • Innovative digital portfolio and customer value propositions. • 844 000 Timiza loans advanced	• Product and service innovation • Key skills required, particularly IT skills, are in short supply due to increased competition and costs, requiring upskilling and enhancement of employee proposition
• 1 979 employees • Shs 10bn paid in employee benefits • 60% enabled to work from home • Customer obsessed and performance focused culture • A vibrant, fun and great place to work • Customer experience index at 71.9%	• Availability of strategically important skills • Access to experienced management and leadership • Enhanced skills development including personal and future skills • Pipeline of ready leaders to replace strategic exits • Improving colleague experience
• 84 branches • 208 ATMs • Alternative channels - mobile and internet banking • Uptime of application systems at 99.6%	• Alternative channels • Strategically placed branches • Enhanced and expanded digital proposition
• 36 ReadytoWork interns • 7 735 ReadytoWork youth • 5 850 women entrepreneurs benefited from Women in Business proposition • 124 students in scholarship programme • Sustainable strategic partnerships • Sustainable investments • Robust stakeholder relationships • Enhanced Women in Business proposition	• Strong and trusted brand • Best-in-class youth empowerment programme
• Sustainability programme established • Sustainable premises • Sustainable use of natural resources • Signatory of the Principles for Responsible Banking (PRBs) • Started process of alignment to Principles of Responsible Insurance	• Resource efficiency • Green building certification

Our business activities – what we do

A fully integrated business offering delivered through our customer-first digital solutions, ecosystems of financial services, lifestyle and value chain offerings.

1. Providing payment services and a safe place to save and invest

- Accepting customers' deposits, issuing debt, facilitating payments and cash management, providing transactional banking, savings and investment management products and international trade service.

2. Providing funds for purchases and growth

- Extending secured and unsecured credit based on customers' credit standing, affordability and risk appetite. Trade and supplier finance, working capital solutions, access to international capital markets and interbank lending.

3. Managing business and financial risks

- Providing solutions, including fixed-rate loans, pricing and research, as well as hedging, which includes interest rate and foreign exchange.

4. Providing financial and business support

- Providing individual and business advice, advisory on large corporate deals and investment research.

5. Protecting against risks (insurance)

- Providing savings and investment policies and compensation for a specified loss, such as damage, illness or death, in return for premium payments.

Our outputs – what we produce

We provide a range of banking, advisory and insurance offerings for individuals, small and medium-sized businesses, corporates, financial institutions, banks, governments and development finance institutions. We generate revenue through fees, interest from lending, and insurance activities.

Funding and deposits

- Saving products
- Investment products and services
- Fund-raising for lending and investment

Output: Innovation of new products

Credit extension

Extend credit through responsible and sustainable lending practices

- Business loans
- Personal loans
- Asset finance
- Cards
- Mortgages

Output: Net interest income

Asset and wealth management

Provide solutions to manage, protect and grow wealth

Output: Gains and losses from investment activities

Facilitate transactions

Enable payments and transactions

Output: Net fee and commission income

Bancassurance

Offer insurance solutions

Output:

- Changes in insurance contract liabilities
- Net insurance premium income
- Net claims and benefits payable on insurance contracts

Markets and trading

Provide trading and global-market-related solutions

Output: Gains and losses from banking and trading activities

Other outputs from our business operations include carbon emissions and other effluent and waste.

Outcomes – how we create, erode value and preserve value for stakeholders	**Stakeholders**	**Actions to enhance outcomes**
Financial capital • 11% - growth in total assets • 13% - growth in customer deposits • 25% - growth in revenue • 41% - normalised cost-to-income ratio • 22.9% - normalised return on equity • Employee wages and benefits Shs 9.2bn • Payments to providers of capital Shs 6bn • Payments to government Shs 6.1bn • Community investments Shs 150m • Total capital financing Shs 283.6bn • Green investment Shs 32m • Local procurement spend Shs 3.7bn		• Diversify revenue streams • Cost reduction through digitization • Enhanced operational efficiency
Intellectual Capital • Recorded improved Net Promoter Scores (NPS) at branch level • Improved availability of Timiza platform for customers with 1 043 505 loans advanced in 2022		• Improved customer engagement • AI in fraud analytics
Human capital • 2 070 service-oriented employees • Employee attrition rate – 7.1% • Awards – Top Employer Award 2022 • Colleague experience index – 73.4% • Job satisfaction - 7.81%		• Enhanced operational efficiency through technology • Employee training and development • Enhanced organisational culture to drive innovation
Manufactured capital • 83 branches • 196 ATMs • 60 cash deposit machines • Digitally active clients up by 19% • Disbursed Timiza loans worth Shs 15.2bn up from Shs 10.2bn in 2021 • Core Banking and Digital Channels availability - 99%, • ATM uptime - 96%. • Transactions now taking place outside the branch – 92% • 60% of back-office processes fully digitised		• Deployment and improvement of digital propositions • Increased platform stability
Social and relationship capital • Full regulatory compliance • 36 ReadytoWork interns • 231 740 youth empowered through ReadytoWork • 10 703 women entrepreneurs benefited from Women in Business • 574 students benefited from scholarship programme (cumulatively) • Consumers participating in financial education • Treating customer fairly score - 86.1%		• Leveraging strategic partnerships • Shifting from debt-led customer relationships to transactional relationships, • Winning customer primacy
Natural capital • Branch energy improvement programme • 13% reduction in energy footprint • 30% reduction in cost of drinking water • Green building certification – five premises EDGE certified • 303 664 trees planted		• Just carbon transition

Impacts

Economic impact SDG 8 SDG 10

- Shs 6.1bn paid to government in taxes
- Shs 7.3bn paid to capital providers
- Shs 3.7bn spend on local procurement
- Shs 283.6bn disbursed in capital financing

Benefits to our people SDG 8 SDG 10

- 40% of our Board is made up of women
- 48% of our management constituted of women
- 50% of employee compliment are women

Contribution to our communities SDG 4 SDG 12 SDG 15 SDG 17

- 231 740 young people trained
- 574 needy students supported to access university education
- 70 schools supported with development of computer labs
- Women, Youth and PWDs comprise 10.3% of our suppliers
- Shs 20m to National Drought Steering Committee

Impact on the environment SDG 7 SDG 8 SDG 12 SDG 15 SDG 17

- 13% reduction in energy consumption
- Elimination of plastic use for drinking water supply
- 26.3% carbon footprint reduction
- Carbon footprint of 2 647 tCO_2 equivalent recorded
- 303 664 trees planted

We are committed to being a force for good in society and have selected SDGs 4, 8, 10 and 12 as those where can make the most significant impact with a focus on incorporating additional goals in the future.

Awards

- #1 Most reputable financial brand in Kenya (Globescan)
- #1 Fastest response rate on digital platforms in Kenya (Ipsos)
- #1 Highest positive sentiment on digital platforms in the financial category
- #1 Most transformative brand in Kenya (The Knowledge Hub)
- #2 Most impactful brand in Kenya (The Knowledge Hub)
- Best impact investing Initiative, Absa SHE Academy (National Diversity and Inclusion Awards)
- #2 Empowerment of women in the community in East Africa, SHE Business Proposition (Accenture Gender Mainstreaming Award)
- FiRe Award – 1st Runner Up under Governance Category
- Top employer in Africa
- Top employer in Kenya (Top Employer Institute)
- Kenya Bankers Association (KBA) Catalyst Awards – 1st runners up Best bank in Operational Efficiency

Our strategy

Reflections from the Chairman

> ***2022 marked the third year since the inception of the Absa brand in the Kenyan market and was an important milestone as we concluded our 2018 – 2022 strategy, which focused on Growth, Transformation and Returns (GTR).***

Our operating landscape

The financial year under review was marked by a confluence of risk and opportunity factors that continued to have an impact on our industry and business.

On the risk side, the ongoing global geopolitical tensions, including the effects of the war in Ukraine increased volatility in financial and commodity markets, leading to high inflation and increased interest rates. Those developments, together with the residual effects of the COVID-19 pandemic, continued to impinge on the Kenyan economy.

Furthermore, local and regional specific events such as the 2022 General Election and drought in the horn of Africa due to five consecutive failed rain seasons affected our stakeholders.

On the other hand, this environment presented yet the opportunity for Absa Bank Kenya PLC to be there for the people and ensure continuation of access to finance, which is the oxygen of commerce. To this end, Absa extended Shs 148 billion of new lending to the economy in 2022, an increase of 36% from 2021, most of which was towards businesses leading to economic recovery and transformation. This effort was in line with the commitment to Kenya and her people through our purpose of bringing possibilities to life by working with people to get things done.

Last strategic horizon

The Board is pleased with the progress made in our strategy implementation, having successfully completed the 2018 to 2022 strategic horizon that focused on Growth, Transformation, and Returns (GTR) and repositioned Absa as a more relevant business to our stakeholders.

We now have a business that is gaining market share, has market-leading efficiency and returns levels, and whose brand is well-regarded by external stakeholders, backed up by the increased pride and passion among colleagues. This success serves as the foundation for the next horizon of our transformation.

This next horizon will leverage the prior successes achieved with our three strategic enablers. First, an Absa brand whose awareness in 2022 stood at 92%, up from 28% at inception in 2020, propelling the Bank to be recognised as Kenya's most reputable financial institution by Globescan.

Second, a digital transformation journey that has led to more than 92% of our customers using alternate channels as a result of multi-year transformative investments of over Kshs 5 billion.

Third, our people and culture transformation that has resulted in Absa being recognized an employer of choice.

Role of financial services institutions

While financial services continue to be an important part of our lives, and a critical component in commercial activities, improving livelihoods and economic progress necessitates that the responsiveness of services and the way they are delivered become the most important aspects of our value creation journey.

This is known as relevance in Absa. Relevance necessitates the existence of a future-ready organisation that is agile to respond to external stimuli in a timely and appropriate manner. It also entails possessing the necessary skill sets and capabilities to navigate an ever-changing and complex operating landscape.

While banks have traditionally been thought to be a haven for financial experts, non-traditional skills in science and technology are increasingly becoming core skill sets for financial institutions. Diversifying talent and retaining relevant expertise will be critical to delivering value and remaining competitive in the new horizon. In this regard, we continue to upskill our colleagues, allowing them to develop future skills while also onboarding talent that resonates with this changing context.

Even though digitisation has created a chasm between financial institutions and customers as traditional branch interactions have been replaced with more impersonal but convenient channels, the need for improved customer relations and customer experience remains constant.

How we are responding as Absa

Delivering products and services that meet our customers' needs is critical from the start. However, as customer needs and expectations change and the options for including financial intermediation expand, it is critical that we respond quickly to these opportunities. Inevitably, technological and demographic changes will continue to influence how finance is delivered, as well as which channels, products, and services are best suited for deployment in various customer segments.

It is also important to recognise that most customers have multiple touchpoints across financial institutions and diverse options for engagement across this financial landscape, so remaining relevant necessitates more than just banking core competencies; it also necessitates strong relational competencies and the ability to anticipate needs and resolve these needs proactively as they are presented to us by customers.

The pandemic reinforced our commitment to being there for our customers in their hour of need. This customer-responsive stance was exemplified by Absa becoming the first bank to publicly offer a moratorium on loan repayment for customers, accompanied by non-financial interventions to protect customers' lives and livelihoods and boost their resilience.

We have also continued to assist our customers in their recovery journey by providing personalised products, solutions through contextual responsive engagements with them. Further, treating customers fairly and being ethical are critical pillars of our approach to responsible banking.

Our wider role in society

Historically, brands have invested in corporate social responsibility programmes, the majority of which have taken the form of philanthropic endeavors. This approach is undergoing a fundamental transformation as businesses increasingly recognise that these efforts could be more sustainable and impactful if they were integrated into the core business approach to the market. Today, businesses can still profit by addressing long-standing societal, economic, and environmental issues. More than ever, brands are expected to serve and steward the environment and communities in which they operate, in addition to meeting their shareholders' profit expectations.

Considering this, we have decided to keep ramping up our efforts to build a relevant brand that drives a sustainable future. Consumer demand for purpose-driven brands requires us to expand our sustainable practices, invest in authentic branding, and continue to hold ourselves accountable for our credentials. Our shared value approach aims to strengthen these credentials as we strive to be a force for good in society. In 2020, we launched our sustainability strategy, which identified 13 commitments as the foundation of our shared value strategy.

As part of this agenda, and in recognition of the importance of climate change and the urgent need for global action to avert a climate disaster, we are working to improve our green credentials and climate approach, including reducing our carbon footprint and pursuing green funding opportunities. In 2023, we plan to launch the Absa Bank Foundation through which we will pursue our societal intentions while deploying our competencies to enhance social advancement and partnerships.

Our new strategic aspirations

After successfully implementing the GTR strategy, we have curated our new strategic aspirations for the next horizon, in which we aim to become a modern-day business that is holistic in financial services and inclusive to people. The new strategic horizon necessitates the application of Absa's competitive advantages in pursuit of our corporate purpose and creating shared value for our stakeholders. This is built on the foundation of a resilient business, strong capital and liquidity, improved customer responsiveness, an enabling culture, and colleagues who are passionate and proud of their work.

Building on these capabilities, the goal is to increase the gains from the previous strategic horizon, resulting in increased value for our stakeholders.

We aim to transform into a well-rounded financial services company that offers a wide range of relevant financial services. In our consumer business, we intend to pursue the mass market through digital platforms, while offering differentiated financial services to the middle and affluent markets.

An increased level of engagement with the SME sector is expected, given the critical role they play as the bedrock of the Kenyan economy, accounting for roughly 50% of GDP and more than 80% of employment. Also, we hold a leading legacy on experience and expertise with larger corporates, and they remain a key focus area for continuing to enhance our value propositions in the market, with the ecosystem proposition serving as a primary driver of commercial activities with this customer demographic.

Delivering through our corporate attitudes of brave, passionate, and ready, will drive a culture that is decisive and that fosters innovation to support growth. Thus, innovation will be a critical component in achieving our strategy by approaching and doing things differently to meet our customers' ever-changing needs. We intend to attract and retain the best talent for our employees by providing a fit-for-purpose employee value proposition and providing an exceptional employee experience. Overall, we have embraced diversity and inclusion in recognition of the value that everyone brings through a pool of talent with a diverse set of qualities, attributes, skills, and strengths.

To us, digitally powering our business means deploying technology to seamlessly deliver our services to customers, which has touch points across our front and back-end operations. To achieve this goal, we intend to modernise our technology platform and drive the digital maturity of our consumer financial services business. In this technologically driven era, our cyber security credentials are world class, as is our vigilance. By doing so, we can protect our customers' resources and deploy advanced technological solutions to frustrate and deter fraudsters.

Leadership changes

The financial year marked a pivotal moment in our leadership, with Jeremy Awori, our former Chief Executive Officer, departing to pursue career opportunities outside of Absa Group. The board wishes him well in the next phase of his career. Following his departure, we commenced the leadership transition process in the fourth quarter of the year, which I am glad to report has been concluded successfully and Abdi Mohamed appointed to the role of Managing Director and CEO, effective 1 May 2023.

Abdi is a Kenyan with over 28 years' experience in the financial sector and has held various executive positions within Absa Group. Prior to his appointment, Abdi was the Managing Director, Absa Bank Tanzania, and acting Managing Executive for Retail and Business Banking Africa Regional Operations, Absa, a role that spans across multiple geographies within Africa. He has previously served as Chief Operating Officer for the Bank in Kenya.

The Board is excited to welcome Abdi back home and is confident that his leadership and experience will be crucial as we continue to build on our current momentum to transform into a locally relevant and sustainable business that positively impacts all its stakeholders. This transformation process will require us to remain resolutely focused on enhancing our digital capabilities, establishing Absa as the home of talent, and building an inclusive brand that is a force for good in our communities. For our business banking and corporate clients, we want to become their holistic financial services partner, driving their growth and consequently positioning Absa at the core of our economic engine.

On behalf of the Board, I would like to sincerely thank Yusuf Omari for his steadfast leadership as the interim MD and CEO over the last six months. Yusuf will continue to serve in his capacity as the Chief Finance Officer (CFO). By the same token, the Board would like to thank Moses Muthui for his diligence and commitment while serving in the role of interim CFO. Moses will continue serving in his role as the Chief Strategy Officer and Finance Director for Corporate and Investment Banking.

During the year, the Board was pleased to welcome a new Director, Kedibone Imathiu who joined in November 2022. Kedibone has sound business and leadership skills, honed by 18 years' experience in audit, accounting, advisory, corporate finance, private equity and fund management. We look forward to leveraging on her skills, expertise and experience in this new strategic horizon.

I would like to acknowledge and appreciate the members of the Board for their strong leadership, insights and guidance which ensured that the Bank stayed on course through the year especially during the leadership transition period.

The Board's and my appreciation also go to the entire leadership team and to all colleagues, for maintaining the momentum in growth, transformation and returns through to the end of the last strategic horizon, setting a solid launch pad for the new strategy which commenced at the beginning of 2023.

Looking ahead

The Board remains optimistic about the Bank's prospects in the new strategic horizon and continues to diligently carry out its governance mandate. The management teams have demonstrated tremendous professionalism and expertise in delivering results while continuing to transform the Bank.

We are also inspired by our customers' loyalty and trust in Absa, and we will continue to deliver solutions that will empower them as their financial partner. As we embark on the new strategic horizon, we are cognisant of the enormous challenges ahead of us and the importance of fostering meaningful partnerships to continue creating shared value for our stakeholders.

Charles Muchene
Chairman, Board of Directors

Reflections from the Interim Managing Director and Chief Executive Officer

"Our first priority is to become a consumer financial services business that is fit for the modern day. We acknowledge that 'modern-day' is a moving target, that every day we will benchmark our consumer business to what the market offers and what consumers need at that moment."

Outperformance on 2017 to 2022 strategy

In January 2018, we unveiled our five-year strategic plan, inspired by the actions of people who always find a way to get things done and underpinned by our purpose of bringing possibilities to life. We are obsessed with our customers and constantly strive to create opportunities for them to realise their dreams while supporting them every step of the way. Beyond commercial success, we are a forward-thinking organisation driven by progress and a desire to thrive alongside society. This is the foundation of our existence, and in accordance with our purpose, we have been executing our commercial strategy focused on Growth, Transformation and Returns (GTR). Our ambition with GTR has been to pursue sustainable Growth of the business, accelerate Transformation in line with the operating context and deliver sustainable Returns for our shareholders through the strategic cycle.

On Growth, our goal was to protect our core franchise while pursuing new growth areas to increase top-line revenue above industry levels in order to gain market share. In 2022, we delivered 25% in revenue growth, which is the highest growth in the past 15 years. This is as a result of the evolution of our business with new propositions toward a full financial services group while protecting our core segments and doubling our investments to capture emerging revenue pools in digital finance and payments.

This diversification strategy laid the groundwork for us to accelerate our revenue and balance sheet growth. For instance, our absolute revenue increased seven-fold and our customer assets increased by Shs 115 billion to Shs 284 billion in the strategic cycle compared to the previous horizon, supported by a solid strategy centered on being a growth partner for all our customers.

On Transformation, we committed to driving cost-to-income ratio into the mid-40%'s from 55% in 2017. The Bank has exceeded this commitment with the cost-to-income ratio now at 41% driven by operating model redesign and transformational investments of over Shs 5 billion. This has significantly reduced our structural costs and supported reinvestments for growth.

On Returns, we committed to achieving a return on equity above our cost of equity by 5%. The Bank's return on equity is 23% as at the end of 2022, having recovered from downturns resulting from interest rate capping and the COVID-19 pandemic. Our dividend yield has remained in the top quartile with our share price outperforming key indices at the bourse, up 28% for the strategic horizon 2018 to 2022 against the backdrop of equities slumping by 26% at the NSE over the same period and maintained first position among listed banks.

Additionally, we continued to build our brand for local relevance and consideration leading to significant brand awareness improvement from 28% in 2020 to 92% in 2022. We also achieved improvement on all four pillars of the reputation tracker; value creation, stakeholder engagement, trust, and advocacy, with Absa now ranked as the most reputable financial institution in the country by GlobeScan Brand Reputation Tracker and the second brand that is transforming lives.

Our brand consideration has improved from 21% to 41% while key brand equity metrics have also surpassed the old brand scores and are ahead of our initial targets. We have reached significant milestones in building Absa as a fun, vibrant and aspirational place to work.

In 2022, Absa was feted as a top employer, recognising excellence in people management practices. Further, Forbes named Absa as a Top Female-Friendly company in 2022 from our efforts in advancing the Diversity and Inclusion agenda at all levels of the company. Our material culture transformation journey for the past five years has delivered exceptional colleague experiences, leading to tremendous improvement in our Employee Experience Index in the past three years to 73.4%.

We believe in shared value and being a Force for Good in our society. We continue to embed sustainability in our strategy execution, which has led to EDGE certification for our head-office premises, impacted over 231 740 youths through ReadytoWork, empowered over 10 000 women in business, and planted over 303 664 trees. Overall, we are making good progress towards delivering on our sustainability commitments.

Operating context for the next horizon

The operating environment continues to be complex, and we anticipate short-term challenges in the economic environment that may impact our delivery. The world economies are characterized by significant rise in inflation and facing recession fears as economic growth slows after a rebound in 2021. Further to that, geopolitical tensions have cast a long shadow over global growth prospects, with geopolitical crisis exacerbating pre-existing supply-side challenges and intensifying commodity market volatility. Furthermore, rising global borrowing costs are increasing the risk of financial stress among the many emerging markets and developing economies that have amassed debt at the highest rate in more than half a century.

However, we believe that we have built the capability to discern transitory and structural economic moments. We are therefore placing a medium to long-term strategy for deliberation within the context of short-term challenges. On the other hand, there is a new competitive landscape that we face with the advent and dominance of digital ecosystems. It is clear to us that we have to find a strategic response to capture opportunities presented by the ecosystem created by mobile money and other financial technology companies to our consumer financial services business.

Other than this part of our business, we believe that our core franchise in Corporate and Investment Bank and Business Banking remains strong and with a supportive investment case, we can continue to compete effectively in the financial sector. Finally, the change in Government policy towards supporting SMEs and job creation for the youth presents addressable opportunities for our business.

The next horizon

The next horizon achieves a mental shift from perspiration to inspiration as we seek to connect to the heart of the organisation. While financial measures demanded under the Growth, Transformation and Returns strategy remain important, we are going to place greater emphasis on leading measures that support the journey of building a relevant and modern-day business.

More specifically, we have made choices that will lead us to achieve our goals in the medium to long-term through three priorities supported by three enablers.

Our first priority is to become a consumer financial services business that is fit for the modern-day. We acknowledge that 'modern-day' is a moving target, that every day we will benchmark our consumer business to what the market offers and what consumers need, at that moment, and continuously ensure that our business is connected to the present. This is important because our current consumer business has achieved significant growth turnaround over the past five years.

However, the sources of growth are relatively limited given that we are offering more of our existing products to our existing set of customers. The Kenyan consumer market has seen a significant transformation with consumers demanding more value in terms of solutions, innovations and customer experience. We will aim to significantly transform our consumer business to elevate customer experience and proposition at every touchpoint.

Supported by the fact that small businesses are expected to remain the country's economic driver, our second priority is to become a market leader in Business Banking, driving economic growth and transformation. Over the past five years, we have developed a Business Banking brand that is standing out in the market. Our new proposition aim to, among others, impact one million women entrepreneurs over the next five years to support their aspirations. For more than anywhere else in our portfolio, Business Banking presents the greatest opportunity. The Kenyan market has a significant opportunity of 7.4 million SME customers. Penetration of formal banking services remains low, thus presenting a significant upside for revenue growth. Our ambition is aligned to priorities of the government to support the SME segment to fuel growth and create employment opportunities for young people.

Our third priority is to build a leading Corporate and Investment Bank in connecting ecosystems. Absa Group is building on the global competitiveness that Barclays had and leveraging our African footprint for regional commerce. We believe that the power of the franchise will come from helping clients better understand and serve their ecosystems and value chains locally. This belief is supported by the fact that the global business case for multinationals has over time evolved, requiring local relevance and therefore demanding banks help them serve the local ecosystems and value chains.

To successfully execute and outperform the next horizon, we see our priorities being supported by three broad enablers.

Our first enabler is to digitally power our business; technology is transforming every aspect of commerce. Customer preferences have largely transformed and evolved towards more digital and self-service. However, we still see greater importance in engaging our customers, especially in advisory. Digitally powering our business means digitising end-to-end delivery of our services from front-end to back-end operations. We will significantly automate our back-end processes to support this agenda as well as materially invest to improve our customer experience at the front-end.

Our second enabler is building an always-on trusted brand that is driving a sustainable future. Consumer demands for purpose-driven brands mean that we need to amplify our sustainable practices, invest in meaningful branding and be accountable for our credentials. Our ambition is to significantly improve brand consideration and drive shared value through our role in society and sustainability commitments.

Our third enabler is to build a home of talent and diversity, underpinned by the fact that talent is an essential organisational asset in a world of constantly rising employee expectations. We believe that cultivating a culture that fosters innovation will support our growth ambition to attract and retain talent through a materially differentiated employee experience. In addition, diversity acknowledges the individual strengths of each employee and the potential that they bring in driving creativity and productivity.

Our strategy presents a multi-faceted approach towards delivering social and economic transformation in societies in which we operate. Our commercial strategic ambition for the next horizon seeks material business transformation to deliver outperformance with the core target being to achieve more than four million customers, our ultimate success will be to gain market share of above 12%.

Conclusion

I am encouraged by the significant strides made in 2022 in bringing possibilities to life for all of our stakeholders, as well as the milestones achieved as we close the Second Horizon of our strategic cycle. This progress heralds our ability to remain focused on our strategic intent, achieving what we set out to do despite unprecedented uncertainties that had a significant impact on our business.

Our achievements in 2022 would not have been possible without the significant effort and unwavering determination of all of our colleagues. Congratulations and thanks to Jeremy Awori for his nine years as CEO and member of the Board, during which time he presided over some of the most critical moments in our organisation's history, including the separation from Barclays and steering the organisation through the disruptive COVID-19 pandemic. I wish him success in his future endeavors.

Finally, I am grateful to the Board, shareholders, management, employees and customers for their confidence and trust in me, as well as the support provided in steering the business, and I look forward to our collaborative effort in bringing possibilities to life while building our great nation.

Yusuf Omari
Interim Managing Director and Chief Executive Officer

Our operating environment

As the worst phase of the global economic slowdown induced by the COVID-19 pandemic was waning and an economic rebound on course in 2021, the world economy faced new challenges in 2022 resulting in the spectre of recession and stagflation, unprecedented in recent times. These new headwinds and subsequent regulatory actions, coupled with the unresolved effects of the pandemic, have created a course deviation in earlier predictions on global economic performance.

Disrupted recovery

Initial forecasts for 2022 pointed to a post-pandemic recovery, with global GDP growth projected at 3.3% in 2022 and 2.2% in 2023. However, a major international conflict compounded by the slow recovery of global supply and logistics mechanisms from the impacts of the pandemic, coupled with volatility in commodity markets, disrupted key economies leading to the downgrading of most major growth forecasts. These factors have impacted exchange rate stability, resulting in a surge in cost-of-living indicators. Global inflation stood at 8.8% in 2022, up from 4.7% in 2021, the highest inflation rate since 1996, leading to concerns about stagflation in 2023, last noted in the '70s and late '80s. The prospects for the global economy, as outlined by the IMF, are the third weakest since 2001, behind only the 2008 financial crisis and the worst phase of the coronavirus pandemic.

In response, most central banks have had to accelerate monetary policy tightening and hiked interest rates in the course of the year, with the Federal Reserve rate increasing from near zero in March 2022 to 4.5% by December, the most aggressive rate hike in four decades and highest level since January 2008. Historically, developing countries with ample monetary and fiscal policy space have been able to withstand rate increases in advanced economies. However, pandemic measures taken by developing countries have depleted those defences for many developing economies, resulting in marked vulnerability and a weakened capacity to respond to existing challenges.

The impacts of these headwinds on the Kenyan economy have been severe. Inflation, which stood at 9.1% in 2022, was the highest in more than years, as evidenced by an upward lift in the cost of food, fuel and electricity. The rising cost of living also dampened consumption, intensified by a prolonged electioneering period and a severe drought attributed to the four consecutive failed rain seasons and the late onset and poorly distributed 2022 short rain season. Interest rate hikes by the Monetary Policy Committee in response to inflation moved the base lending rate from 7.5%, which had prevailed since May 2020, to 8.75% by the close of the year.

Interest rate hikes and the weakening of the Kenya shilling against most major currencies offer both challenges and opportunities for Kenyan banks. The currency depreciated from 113 shillings to the US dollar at the commencement of the year to 123.4 at year's end, largely due to elevated but unmatched dollar demand, while the current account deficit hit a five-year high at 5.6% of GDP. On the downside, increased loan defaults are anticipated for heavily impacted sectors such as importers, clients servicing dollar-denominated obligations, and by ripple effect, consumers faced with higher prices impinging on disposable incomes. On the other hand, interest hikes and currency volatility offer banks the opportunity for improved earnings through currency trading.

Kenya's country and sovereign risk rating remained unchanged, underpinned by the peaceful political transition following the August elections. However, the country is at risk of debt distress, with the treasury indicating that the value of public debt, as a proportion of GDP for 2022 is 67.3%, higher than the proposed public debt ceiling of 55% and requiring servicing to the tune of 54% of annual revenues. In response to these constraints, the newly elected government has embarked on a Shs 300 billion austerity plan, cutting expenditures, deferring new projects and scaling down on externally funded projects.

How it affects us

The ripple effects, both direct and indirect, from a more fragile and fractious global economy will be felt disparately across the global banking industry. These effects will depend on the country's economic growth and interest rate environment, bank size, capital levels and business models. Liquidity challenges occasioned by constrained foreign currency availability and interest rate hikes will have a direct impact on our customers, potentially resulting in increased loan defaults. In addition, customers may take a precautionary stance leading to reduced uptake of interest-charging products and services. Weak economic performance and inflation will impinge on customer recovery as consumers face increased pressure on their purchasing power. Further reductions in government expenditure will impact the economy, reducing earnings by service providers. These impacts could result in an adjustment in our business model and require us to proactively support customers.

How we are responding

- New strategy for the next horizon that seeks to enhance relevance by offering enhanced propositions that are more tailored to customers.
- Dynamic risk appetite that adapts to the context while ensuring we support our customers.
- Improved organisational agility and resilience.
- Support to communities and businesses to mitigate the impacts of the context.

Government policy transition

In September 2022, a new president was sworn in marking a significant shift in government policies. The new regime has premised its core economic agenda around a bottom-up approach focusing on six priority economic sectors, namely agriculture; micro, small and medium enterprises (MSME); housing and settlement; healthcare; the digital superhighway and creative economy; environment and climate change. A core facet of the government's agenda is to improve sustainable livelihoods through the reduction of the cost of living, eradicating hunger, creating jobs, expanding the tax base, improving the country's foreign exchange balance, as well as driving inclusive growth.

These new policies intend to address challenges created by local and global factors while also creating a conducive environment for business and enhancing public service delivery and efficiency. Several policy initiatives taken by the new regime, including announced scale down measures touching on fuel and maize flour subsidies, austerity measures aimed at budgetary expenditure cuts by Shs 300 billion, a freeze on international travel for public servants, and efforts at enhancing tax collection, point to an increased impetus in fiscal consolidation.

The government has also launched the small loans component of its flagship Hustler Fund, targeted at lower income earners, and indicated that a larger loan amount with a limit of Shs 2.5 million would be availed to small businesses starting March 2023. It has also committed to launch several other funds to support the development of infrastructure, affordable housing, settlement, film production, fuel stabilisation, social welfare and affirmative action for the disabled.

To support its economic agenda, the government will pursue increased tax collections with the aim of nearly tripling annual tax collections within five years to five trillion shillings. Key initiatives in this regard include sealing revenue loopholes and also increasing the tax base. Further, the government aims to reduce public sector wastage and manage resources with greater austerity, enabling it to devote more funding to development initiatives.

Significantly, the national government has signalled its intention to strengthen devolution by transferring remaining functions to county governments and availing the required funds to enable the provision of county services.

How it affects us

Improved government functions and performance will enhance business activities across board through business-friendly policies and practices, easing the cost of doing business and improving efficiency and commercial outcomes. In addition, the government's intent on agricultural development, with a pledge to invest Shs 250 billion in five years, added to the pursuit of one million affordable houses in the same period, will create opportunities for Absa. However, removal of government subsidies will have a short-term effect of increasing the cost of living since transport cost, which is the third-highest cost item for most Kenyans, is anticipated to rise resulting in a decline in disposable incomes and an increase in commodity prices.

How we are responding

- Positioning our propositions to be relevant and responsive to emerging customer needs and expectations, thus co-creating value and enabling possibilities.
- Supporting the SME sector with targeted propositions for women and youth through financing and non-financial support, including training, mentorship, access to markets, networks and knowledge.

Sustained competition and evolving customer expectations

The financial sector remained sound and stable in 2022, owing to adequate capital and liquidity buffers, well-coordinated policy reforms and measures, and robust regulatory oversight, according to the CBK's Financial Stability Report. Measures such as the Central Bank of Kenya (Amendment) Act No. 10 of 2021 on digital lenders, the launch of the National Payments Strategy, 2022-2025, operationalisation of aspects of the Data Protection Act, 2019, the the Public Finance Management (Credit Guarantee Scheme) Regulations, 2020, non-withdrawable deposit-taking SACCO Societies (Non-Deposit-Taking Business) Regulations, 2020, as well as enhanced collaboration on cyber security threats, among other surveillance measures, are expected to enhance stability and resilience. These are complemented by monetary and financial policy measures.

The Kenyan banking sector remains overbanked and highly competitive, with 38 banks at the close of the year. Consolidation and regional expansion continued as banks recovered from the pandemic and sought to strengthen their competitive position. Despite the challenging macroeconomic context in the country, banks remained profitable and emerged more resilient with sufficient capitalisation and adequate liquidity. Profitability was driven by improved revenue diversification, as evidenced by growth in non-interest income, improvements in interest income and enhanced earnings from foreign exchange-related functions.

A key characteristic of the sector has been innovation and the drive to provide technology-based financial solutions. In line with the Banking Charter, innovation has focused on customer-centricity and resulted responsively from customer feedback. Most banks have engaged in partnerships and collaborations with technology firms, including Mobile Network Operators (MNOs), Fintechs and technology service providers. From the upgrade or outright overhaul of legacy technologies to the adoption of new forms of technology such as Artificial Intelligence, machine learning, and leveraging big data, banks are transforming their operations, channels and offerings.

Mobile money remains a key enabler for banks, with mobile payment transactions growing from Shs 6.9 trillion in 2021 to Shs 7.9 trillion in 2022, a 15% increase from the prior year. The launch in 2022 of mobile money merchants' interoperability, which allows customers to make till payments regardless of their network, marked a deepening of digitisation of payments, offering increased options for customers. But technology has also created additional competitive pressures for banks as both traditional and non-traditional competitors have increased. For example, the number of digital lenders has increased due to advances in credit scoring, few regulatory barriers, and the widespread use of mobile phones and mobile money, which have enabled growth of the digital lending industry, giving borrowers a quick and convenient option for credit.

A younger consumer demographic has been a key driver for the adoption of technology. Millennials and increasingly Generation Z (Gen Z) customers prefer unique, customised and personalised service offers epitomised by digital products, services and channels and typified by a need for convenience and accessibility on demand. Beyond preferences in how they engage with finance, this demographic is abreast of broader societal issues, with concern for the planet and broader sustainability themes becoming key drivers for their choices in consumption and how they manage their finances, creating expectations on the role of business in society.

How it affects us

A failure to recognise and adapt to changing competitive forces appropriately could erode our ability to create value and remain relevant to our society. Meeting evolving customer expectations with tailored value propositions is critical in ensuring that customer needs are addressed appropriately and conveniently.

How we are responding

- Delivery of innovative and relevant products and services, including use of innovation sprints and product testing.
- Increased use of data analytics to proactively understand and respond to customer trends and expectation.
- Improved and innovative technology-based channels and use of technology to enhance operational efficiency.

Changing world of work

The hybrid and remote workplace is now firmly entrenched as a new normal. This has significant consequences for the way in which work is done and managed, adding new layers of complexity to people management. It also means that ensuring the wellbeing of employees and productivity through technology is a critical aspect of managing people resources. This requires transformation of the workplace and the way in which work is done, placing emphasis on agility and adaptability. Studies from across Europe and the United States show that a majority of workers prefer to have a hybrid model of work, and when required to go to the office, have expectation around flexibility, privacy and space sharing. But hybrid models have challenges, especially in ensuring employee connectedness and productivity while working remotely.

In tandem with this is the trend of massive numbers of employees voluntarily quitting their jobs, dubbed the great resignation. Starting in early 2021, it has peaked in 2022 with millions of employees either quitting or changing their jobs. Predominantly noted in the United States, the reasons cited for resignation were low pay, limited opportunities for advancement, and feeling disrespected at work.

Expectation on businesses and how they manage work have also evolved since the pandemic. Employee wellness, including emotional and mental health, have taken centre stage. Diversity, Equity and Inclusion (DEI) is focal to ensure improved representation of under represented groups in the workforce. Training and employee development, partly to impart required future skills but also as a contribution to lifelong learning, has expounded.

Talent remains a key concern as the critical required to support the current technological transition of operations and service offerings. There is a dearth of individuals with future skills, those considered critical for the performance of businesses over the next few years, resulting in a talent challenge. Retaining and attracting the right talent is therefore more competitive and demanding, requiring appropriate employee offers and supportive workplaces. Upskilling and digital dexterity are of key significance as the digital workplace will require new ideas and creative solutioning, demanding consistent digital upgrades in employee skills.

How it affects us

Most of our customers have resorted to using digital channels for products and services, and we have adapted our work roles to respond to this trend. A hybrid work model has also been adopted, and we continue to review our people and organisational practises to support the evolving world of work and enhance engagement and productivity.

How we are responding

- Adopted hybrid working model with employees working two days in the office and three days at home.
- Enhancing skills of employees through training programmes to ensure that they have at least one future skill.
- Consistent employee engagement to support wellness and enhance connectedness across teams and in the bank.
- Investment in people managers to enhance their skills in managing remote teams and ensuring productivity.

Outlook

Despite downside global and domestic risks, economic growth is expected to be positive in 2023 to 2024, though lower than 2022. The World Bank estimates growth at 5% in 2023 and 5.3% in 2024, amid concern over commodity price increases and effects of drought in 2022. The continuation of a tight fiscal policy, high debt levels, tightening financial conditions, and drought shock on agriculture are expected to dampen growth prospects. Furthermore, an increase in financiers' interest rates is anticipated to slow the take-up of credit while increasing interest income for lenders.

The peaceful conclusion of the General Election process in 2022 and the subsequent transition of government have restored a measure of normalcy. The new government's policies provide opportunities for banks, and its commitment to business-friendly policies is likely to spur increased confidence among investors and private sector players. Further, improved performance of county governments, including investments in public infrastructure and services, will improve economic prospects within counties and spur growth.

The financial sector is expected to remain highly competitive, with increased pressure as players seek to capitalise on growth opportunities. Increased collaboration between financial institutions and Fintechs will continue, aimed at enhancing digitally driven growth. Cyber security, which worsened during the pandemic period, will remain a major concern as the volume and sophistication of malicious cyber activity increases.

Social and environmental aspects will remain in the spotlight, as lessons from the pandemic have proven that business is integrally connected to society, meaning that social issues can have significant effects on the economic and financial landscape. Climate change and the growing realisation of its impacts, including frequent occurrence of extreme weather events, are expected to be centre place alongside concerns about resource scarcity, biodiversity loss, and unsustainable human and business practices.

Legal and regulatory review

The regulatory landscape remains robust with a number of new regulatory developments. A large part of our regulatory performance is focused on fulfilling obligations that were set out in regulations that came into force during previous years. The key thematic areas were:

Risk-Based Credit Pricing: This is one of the four pillars of the CBK Banking Sector Charter 2019. CBK required all banks to submit their risk-based credit pricing plans for approval. Absa Bank Kenya submitted its risk-based credit pricing model in the second quarter of 2022 and received approval from CBK.

Climate Risk: In October 2021, CBK issued the Guidance on Climate-Related Risk Management. The guideline required banks to submit a Board-approved implementation plan by June 2022. Absa met this deadline, and implementation is ongoing. Absa is also submitting quarterly updates on its implementation to CBK. Mandatory climate risk reporting under the Task Force on Climate-related Financial Disclosures (TFCD) framework is to start from 2023.

Data Protection: The Data Protection Act of 2019 and the Data Protection (Registration of Data Controllers and Data Processors) Regulations of 2021 require entities that process personal data to be registered as data controllers and processors. In 2022, Absa applied and was registered as a Data Controller by the Office of the Data Protection Commissioner.

Central Bank Digital Currency: CBK issued the Discussion Paper on Central Bank Digital Currency for public comments. The Discussion Paper examines the applicability of a potential Central Bank Digital Currency (CBDC) in Kenya. The last day to submit public comments was 30 May 2022, which we did. We await the regulator's next steps.

Withholding Tax on Derivative Contracts: The Finance Act 2022 introduced a 15% WHT on non-residents that enter into derivative contracts with a resident entity effective 1 January 2023. In response to this, the Kenya Revenue Authority issued the draft Income Tax Act (Financial Derivatives) Regulations, 2022, for public comment. As part of Absa Group, the Bank leverages derivatives to solution a number of its clients within the CIB business. The full impact of these regulations is yet to be assessed.

Credit Repair Framework: CBK issued a Credit Repair Framework through a press release seeking to improve the credit standing of mobile phone digital borrowers with reported non-performing loans. CBK has requested banks, microfinance banks and mortgage finance companies to provide a discount of at least 50% of the non-performing mobile phone digital loans outstanding as at end October 2022. The framework is expected to expire on 31 May 2023. Absa's digital lending is done through the Timiza platform.

Large Cash Transactions: CBK issued Banking Circular No 5 of 2022 to provide additional guidance on the process of obtaining supporting documents for large cash transactions. Through the circular, CBK advised on the need for a standardised approach in the treatment of large cash transactions and provided a Large Cash Transactions Declaration Form to be completed by customers and adopted as the minimum standard across the banking sector.

Reintroduction of charges: In December, CBK announced the reintroduction of charges for transactions between mobile wallets and bank accounts, which were waived in March 2020, to facilitate the use of mobile money and reduced handling of cash during the COVID-19 pandemic. A petition was filed in Court challenging the reintroduction of charges, though this was unsuccessful.

A key highlight of the regulatory environment was actions focusing on ESG performance and targeted outcomes on the management of climate-related risks. In this regard, the regulators issued the following:

- The Capital Markets Code of Corporate Governance requires the Boards of listed companies to promote sustainability with a specific focus on Environmental, Social and Governance (ESG) as part of company strategies.
- The Nairobi Securities Exchange issued its Environmental, Social and Governance (ESG) Disclosures Guidance Manual in 2021. The manual provides guidance to listed companies on the incorporation of ESG practices into their business models, and to publicly report on their ESG performance at least annually. Listed companies were granted a one-year grace period from the date the manual was issued. From 2023, as a listed company, ABK will be required to issue a sustainability/ESG report.

Regulations to address financial crime

Absa operates in line with relevant laws and regulations to safeguard customers and financial systems against financial crimes. We continued to support our customers by embarking on heightened monitoring due to innovations in technology and increased use of digital payments.

In addition, the Bank played a significant role as a private sector stakeholder by participating in the National Risk Assessment (NRA) on Money Laundering and Terrorism Financing (ML/TF) mutual evaluation exercise with the objective of identifying and assessing the vulnerabilities, levels and trends of money laundering, terrorism financing and proliferation financing in Kenya.

The Bank increased vigilance with respect to financial crime controls due to the heightened financial crime risks resulting from the electioneering period to ensure that it's systems and stakeholders were appropriately protected in line with the applicable regulatory requirements.

Managing risk

Absa is exposed to internal and external risks as part of its ongoing activities to create value for stakeholders; managing risk is a critical underpinning to the execution and realisation of its strategy.

These risks are managed as part of the business model, through alignment of the risk appetite to changes in the operating environment, instilling a risk-aware culture throughout all levels of the Bank, and proactively adapting and improving our risk management capabilities.

Risk management overview

Absa's core purpose, its risks and opportunities, strategy, business model, performance, and sustainable development are inseparable elements of the value-creation process, with alignment critical to long-term success. Risk management and risk oversight plays a critical role in supporting the Bank with its organisational objectives.

The Bank actively identifies and assesses risks and opportunities arising from internal and external environments, while proactively identifying emerging risks. To ensure effective risk management, this consolidated response is monitored as follows:

a. Recognition of the importance of having a strong risk culture, which is an integral aspect of the Banks' broader culture.
b. Well-considered key risks (referred to as principal risks – see below), clear ownership and accountability, and complete risk coverage across the organisation.
c. A coherent risk management operating model and appropriate risk practices, tools and techniques to support the Bank's strategy.
d. Well-defined risk governance structure at country, business and group functions, with clear Board escalation and oversight.
e. A combined assurance model with control functions, independence and clear accountability for managing and overseeing the effective execution of assurance throughout the Bank.
f. Comprehensive and structured processes for evaluating, responding to and monitoring risks.

Current risk management priorities

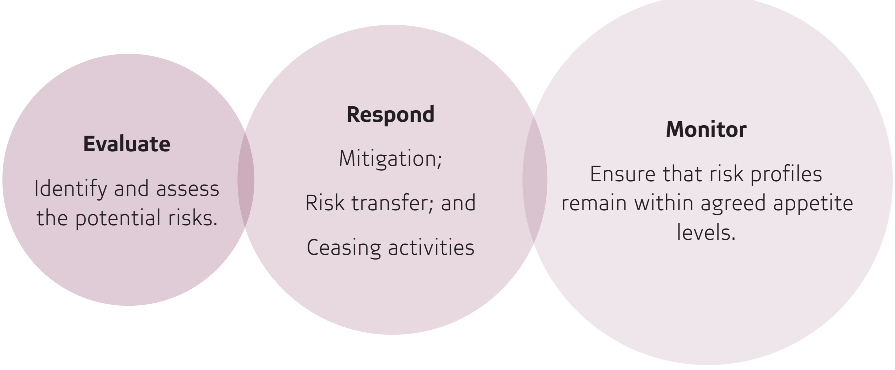
The Bank's operating environment is expected to continue being challenging. Risk, liquidity and capital management will remain a priority, including:

- Creating sustainable value for shareholders while maintaining sufficient capital supply for growth. Capital ratios are to be maintained at the top end of the Board risk appetite and above minimum levels of regulatory capital.
- Continue to lengthen and diversify the funding base to support asset growth and other strategic initiatives while optimising funding costs.
- Monitor growth to ensure a well-diversified credit portfolio in line with the Bank's strategy and risk appetite.
- Monitor changes in the global macroeconomic, political and regulatory environments to identify and manage risks at an early stage. The potential impact of these and other events are modelled and considered in a comprehensive stress testing framework.
- Improve controls, efficiency and operational resilience across critical processes through enhanced platforms and digital capabilities,
- Engage and collaborate with regulatory authorities and other stakeholders on upcoming regulatory changes to ensure the most appropriate outcomes for the banking sector and broader economy.
- Develop further climate action guidelines or standards to guide the Bank's approach to climate change-related risks and opportunities to align with commitments made by the Group.

Risk management approach

Our risk management approach ensures a consistent and effective management of risk within a risk appetite approved by the Bank's Board of Directors, while providing accountability and oversight.

The Bank relies on a comprehensive process to evaluate, respond to and monitor risks. This process is structured around identifying and assessing the risk, determining the appropriate response, and monitoring the effectiveness of the response and the resultant changes to the risk profile.



The Enterprise Risk Management Framework (ERMF)

The Bank's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process, with alignment critical to long-term success.

The ERMF sets the strategic approach for risk management by defining objectives, standards and responsibilities for all areas of the Bank. It is then approved by the Bank's Board on recommendation of the Chief Risk Officer. It supports senior management in effective risk management and developing a strong risk culture.

The ERMF outlines the following:

- The need for segregation of duties by defining the Three Lines of Defence.
- Identifying the principal risks faced by the Bank.
- Risk appetite requirements, which defines the level of risk the Bank is willing to undertake in pursuance of its strategic objectives.
- The roles and responsibilities of risk management.

The ERMF is realised through the policies and standards, which are then aligned to individual principal risks.

The ERMF identifies 8 principal risks and sets out out associated responsibilities and expectations around risk management standards.

Risk strategy and appetite

The strategy is set within the parameters of an agreed risk appetite. The risk strategy is developed alongside the Group's strategy. The risk appetite defines the nature and amount of the risk that the Group is willing to take to achieve strategic objectives.

Risk strategy and appetite

The Bank's approach to managing risks is outlined in the Enterprise Risk Management Framework (ERMF). The following foundations underpin the ERMF:

1. A robust and consistent governance structure at Group, country and business level.
2. Well-defined material risk categories known as principal risks.
3. A 'three lines of defence' model with clear accountability for overseeing and managing risk.
4. A comprehensive process to evaluate , respond to and monitor risks.
5. A robust risk operating model that provides clear roles and responsibilities.

8 principal risks

Financial	Non-financial
Credit	Operational & resilience
Market	Compliance
Capital & liquidity	Strategic & sustainability
Insurance	
Model	

Risk operating model

The Group applies a 'three lines of defence ' model to govern risk across all businesses and functions.

1st line
Process and control owners in customer-facing segments and Group functions who are responsible for managing end-to-end risks and controls in their businesses.

2nd line
Independent risk, compliance, legal and control functions who formulate risk and control policies, and review the 1st line adherence to these.

3rd line
Internal audit function tests and reviews controls to determine that the 1st and 2nd lines execute their responsibilities effectively and consistently.

Evaluate, respond, monitor

Evaluate
Individuals, teams and departments, including those responsible for delivering the objective under review, identify and assess potential risks.

Respond
The appropriate risk responses ensure that the risks are managed within the risk appetite. These include: risk mitigation risk transfer and ceasing certain activities.

Monitor
Ensure that risk profiles remain within agreed appetite levels, verify that controls are working as intended, and challenge or promote re-evaluation of the risks.

New principal risks taxonomy

Principal risk represents a logical grouping of sub-risks primarily for reporting purposes, and does not imply materiality or importance.

No additional principal risks have been introduced in the period under review; however, existing primary risks have been consolidated for reporting purposes, as shown on the diagram below. This consolidation has had positive implications, as outlined below.

Previous principal risk taxonomy	Redesigned principal risk taxonomy
Credit risk	Credit risk
Traded market risk	Market risk
Treasury risk	Capital and liquidity risk
Insurance risk	Insurance risk
Model risk	Model risk
Operational risk Resilience risk	Operational and resilience risk
Conduct risk Financial crime risk	Compliance risk
Business risk Reputational risk Sustainability risk	Strategic and sustainability risk

Key changes implications

Regulatory compliant: All relevant risks required by the Banks Act and ICAAP are covered under the new taxonomy.[1]
Principal risk: Refers to a logical grouping of sub-risks (umbrella term) - does not imply relative materiality or importance in respect to other risks in the taxonomy.
Sub-risk: Set of distinct risk types that enable Absa to fully describe the landscape risks faced - new risks and grouping introduced to more accurately reflect Absa's risk reality.
Oversight at Sub-risk level: Risks are grouped into principal risks for reporting purpose - sub-risks within a principal risk will still be managed independently, with the same level of control.
Document requirements: Each principal risk must have a risk framework while each sub-risk must have at least one risk policy.

Risk appetite

Risk appetite defines the level of risk that we are prepared to accept across the different risk types, taking into consideration varying levels of financial and operational stress.

Risk appetite is key to our decision-making processes, including ongoing business planning and strategy setting, new product approvals, and business change initiatives.

The Bank sets its risk appetite in terms of performance metrics as well as a set of mandate and scale limits to monitor risks. During 2022, the Bank's performance remained within its risk appetite limits.

The risk appetite framework is a key tool linking the organisation's strategy, capital allocation and risk management. The risk appetite is translated into targets and limits for the business lines and establishes the roles and responsibilities of the Board of Directors and senior management in formulating the risk appetite statement

Three lines of defence

The first line of defence is comprised of the revenue-generating and client-facing areas, along with all associated support functions, including Finance, Treasury, Human Resources, and Operations and Technology. The first line identifies the risks, sets the controls and escalates risk events to the second line of defence.

The second line of defence is made up of Risk and Compliance and oversees the first line by setting limits, rules, and constraints on their operations, consistent with the risk appetite.

The third line of defence is comprised of Internal Audit, which provides independent assurance to the Board and Executive Management Committee on the effectiveness of governance, risk management, and control over current, systemic and evolving risks.

Although the Legal function does not sit in any of the three lines, it works to support them all and plays a key role in overseeing Legal risk in the Bank. The Legal function is also subject to oversight from the Risk and Compliance functions (second line) with respect to the management of operational and conduct risks.

A three lines of defence risk operating model with clear accountability to govern risk across all businesses and functions

1st line
Process and control owners responsible for managing end-to-end risks and controls in their businesses.

2nd line
Risk and Compliance oversees the first line by setting limits, rules and constraints on their operations.

3rd line
Internal audit function test adequacy and sufficiency of controls.

Current and emerging risks vs management response

The Russia-Ukraine conflict continues to keep uncertainty heightened and is expected to have an ongoing impact on global markets, outlooks, and the expectations of the markets in which the Bank's clients operate and source or supply of goods and services.

Risks faced by financial market participants and the global and Kenyan economies are expected to remain heightened. Monitoring of the events unfolding in Europe and the United States and continuous assessments of the Bank's exposure and potential risks, both direct and indirect, is ongoing as the impact on various portfolios and business divisions will be non-uniform. The Bank has assessed that its direct exposure to Russia is negligible and thus monitoring is focused mainly on the indirect exposures and risks. Sensitivity to energy inflation and certain commodity prices remain elevated and are monitored.

The Bank's focus remains on proactive risk and capital management to positively position itself as the situation unfolds. Risks are actively identified, and the consolidated response monitored to ensure effective implementation, thereby the targeted result. Scenario analyses are used in the early detection of potential areas of weakness and to assess response effectiveness.

Current and emerging risks	Management's response
Global and local economic recovery uncertainty	
• Recovery of economic activity remains under pressure. Increasing global inflation, driving monetary policy tightening, and resultant interest rate increases will affect growth and economic recovery, potentially introducing supply-side inflation into the Kenyan economy. • Sovereign actions taken to limit inflation may result in economic hardship, higher unemployment, increased inequality, and lower business and consumer confidence. • High sovereign debt levels, combined with reduced debt and interest servicing capacity, increase the possibility of sovereign restructures or defaults.	• Maintain a dynamic approach to setting risk appetite in response to the outlook for 2023 and beyond. • Use scenario analysis to evaluate the potential outcomes of a variety of external and internal factors. Management develops mitigating actions and assesses their effectiveness to guide decision-making on an ongoing basis. • Monitor downside risk presented by the uncertainty in the outlook, where the economic recovery is likely to be unstable and manage risk reduction strategies.

Current and emerging risks	Management's response
Strategic, execution and business risks arising from external and internal drivers	
• Global uncertainty arising from geopolitical instability and other market drivers, which result in increased pressure on emerging markets. • Sovereign actions taken to limit inflation may result in economic hardship, higher unemployment, increased inequality, and lower business and consumer confidence. • Disruption through changing customer preferences and competitor offerings. • Potential adverse impact of people risk.	• Monitor and manage risk strategy and risk appetite based on the ongoing evaluation of global and regional developments to identify and mitigate risks as they arise. This includes re-evaluating credit policies and operational and resilience processes, while enabling business to pursue selective strategic opportunities. • Ongoing alignment of risk objectives with the Bank's strategy to support its customers and communities efficiently, responsibly and sustainably. • Actively engage governments, communities and customers to support initiatives to address economic hardship. • Ensure sufficient investment to continue delivering scalable digital solutions that focus on current and evolving customer needs.
Environmental and social risks impact the Bank, its customers and the operating environment	
• Adverse impact of ongoing and rapid climate and social change on communities and customers will negatively impact communities and sharply heighten the Bank's credit and insurance risks on sister companies. • Evolving complexities in the management of social trends, and the societies and political environments in which the Bank operates. • Increasing expectations from stakeholders to integrate sustainability risk management practises with business activities.	• Implement the United Nations Environmental Programme Finance Initiative Principles for Responsible Banking and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). • Reduce the Bank's direct environmental footprint in line with its 2030 environmental action plan and understand physical climate risk impacts. • Embed processes, encouraging customers to adopt business strategies and practises aligned with the Bank's sustainability policy. • Develop financing standards for other climate-sensitive industries in line with the existing coal financing standard. • Continuously enhance credit risk models to assess the impact of climate change risk. • Continue to develop internal capabilities to use scenario analyses and stress testing to better estimate the impact of climate change on the Bank's portfolio to inform the review and alignment of Absa portfolios for climate change risk and opportunities. • Regularly assess the suitability and strategic alignment of products and customer value propositions with changing environmental and social factors and the impact on the Bank's risk profile. • Maintain focus on the financial inclusivity of customers, including the ongoing support of small and medium-sized enterprises.

Current and emerging risks	Management's response
Heightened resilience, fraud, people and cyber risks expected for the foreseeable future	
• Heightened risk of social unrest due to heightened inflation impacting the cost of living, weak economic environments, infrastructure failures, and poor service delivery. • Heightened fraud and security risks arising from economic pressure. • Increasing opportunistic financial crime and cybercrime, combined with rising sophistication of criminal activity, impacting customers and the Group. • Increasing exposure to potential data leaks arising from third- and fourth-party suppliers.	• Adhere to health and safety recommendations, including monitoring infections and adherence to preventive measures, to keep premises safe for employees, customers and suppliers. • Maintain focus on physical and digital operational resilience and proactively identify and mitigate risks. • Continue to invest in security platforms and continuously evolve controls to secure customer information, including investments in technology, data capability, customer awareness campaigns and industry collaboration. • Continue to embed and refine the processes and procedures in place to respond to incidents to alleviate the potential impact on customers. • Embed a strong and resilient risk culture across the Group through ongoing awareness and training. • Enhance due diligence performed on third-party suppliers through ongoing review and monitoring of controls. • Monitor and manage the impact on employees through an expanded wellness programme and support employees in the evolution of working environments.
Strategic, execution and business risks arising from external and internal drivers	
Significant changes in the economic and social environment impact the execution of the Bank's strategy and heighten business risk. Disruption through changing customer preferences and competitor offerings.	• Monitor and manage risk strategy and risk appetite based on the ongoing evaluation of regional and local developments to identify and mitigate risks as they arise while enabling business to pursue selective strategic opportunities. • Ongoing alignment of risk objectives with the Bank's strategy to support its customers and communities in an efficient, responsible and sustainable manner.

Stakeholders

We are a highly interconnected business that depends on our relationships to create and preserve value. We proactively seek to engage with our stakeholders to provide for their needs and meet their legitimate expectations, thus creating shared value.

Employees

Who they are
- 2 070 employees
- 50% women and 50% men

Needs and expectations
- Safe workplace with consideration of overall wellness
- Fair remuneration and terms of employment
- Impartial performance management and recognition
- Equitable treatment and opportunities
- Skills development and support to match contextual changes in workplace
- Systems and service stability ensuring service delivery
- Supportive hybrid work practices
- Enabling customers to transact seamlessly
- Addition of more features and capabilities on digital channels

Strategic response/value proposition
We create an environment where employees can fulfil their potential and deliver excellence to our customers by:
- Creating differentiated experiences and inspiring a diverse and inclusive workforce
- Attracting and retaining the best talent
- Encouraging self-led development and opportunities for career progression
- Delivering performance-based reward and recognition
- Providing a comprehensive wellness programme and supporting different ways of work
- Investing in technology to ease hybrid work and value creation for customers.

Metrics to measure performance
- Employee Net Promoter Score – 35
- Participation rate – 90%
- Colleague experience index - 73.4%
- Employee attrition rate – 7.1%
- Job satisfaction – 7.81
- Employer advocacy - +41.3%
- Diversity, Equity and Inclusion
- Training spend

Relevant material matters
- Meaningful work

Capitals impacted

Quality of relationship
Employee experience score for 2022 was 73.4% (Good)

Customers

Who they are
- **Individuals:** Entry-level to high-net-worth, across all ages
- **Businesses:** Sole proprietors, small and medium enterprises, large corporates and multinationals
- **Public sector:** County and national government and state-owned enterprises
- Various other legal entities such as development finance and financial institutions, non-profits, trusts, other governmental entities and associations.

Needs and expectations
- Convenient, safe and easily accessible bank channels
- Strong safeguards to protect their accounts and data
- Credible brand that inspires confidence and stability
- Innovative and relevant banking services
- Excellent customer service, including quick resolution of grievances
- System reliability, up-time and ability to transact with preferred channel

Strategic response/value proposition
We deliver innovative technologies and propositions to help our customers bring their possibilities to life.
- Improving access to financial services in local, regional and global markets
- Deepening relationships with customers through a life-stage and ecosystem approach
- Providing an extensive and accessible network combining physical outlets, call centres, digital platforms and strategic partners
- Protecting data privacy and ensuring cyber security through robust technology and data management.

Metrics to measure performance
- Consumer Experience (CX) Index – 86.1%
- CX index (performance and satisfaction) – 86% (RB)
- CX index (performance and satisfaction) – 82.7% (BB)

Relevant material matters
- Protecting customers
- Technology
- Business in society

Capitals impacted

Quality of relationship
Treating customers fairly score was 86.1% (Good)

Investors and investment community

Who they are

- Local and international shareholders, including retail investors, asset managers, pension funds, sovereign wealth funds and corporate holdings
- Investment analysts
- Prospective investors
- Debt investors and credit rating agencies

Needs and expectations

- Strong operational performance, including efficiency, revenue growth and returns
- Maintaining a well-capitalised balance sheet (strong capital and liquidity positions)
- Adequate, sustainable shareholder returns
- Sound risk management
- Transparent reporting and disclosures and effective communication
- Sound ESG practices.

Strategic response/value proposition

We effectively manage risk and create sustainable returns by:

- Ensuring that Absa remains well-diversified by revenue streams and presence
- Maintaining and growing market share
- Offering improving shareholder returns and a rising dividend pay-out ratio
- Ensuring strong capital and liquidity levels to support a solid balance sheet.

Metrics to measure performance

- 14.6bn headline earnings
- 41% cost-to-income ratio
- Dividend of 1.35 declared
- 4% increase in ROE

Relevant material matters

- Geopolitical issues
- Regulation
- Business in society

Capitals impacted

Regulators

Who they are

- Central Bank of Kenya (CBK)
- South African Reserve Bank
- Capital Markets Authority
- Insurance Regulatory Authority
- Financial Reporting Centre
- Nairobi Securities Exchange
- Unclaimed Financial Assets Authority
- Retirement Benefits Authority
- Central Depository and Settlement Corporation
- Competition Authority of Kenya
- Office of the Data Protection Commissioner

Needs and expectations

- Compliance with all relevant laws and regulations
- Financial system stability spanning financial soundness to fair treatment of customers
- A business responsive to regulatory changes
- Ethical business conduct and work environment
- Contribution to governmental development plans and national priorities as well as to the fiscus through tax payments
- Enhancement of sustainable finance and responsiveness to climate change
- Adherence to regulatory and legislative requirements

Strategic response/value proposition

We support the creation of an environment that facilitates sustainable growth for all. We do this by working with regulators and providing input into policymaking and the development of regulations.

- Comprehensive regulatory change management programme
- Facilitating responsible banking by ensuring that appropriate due diligence is followed.

Metrics to measure performance

- Total capital adequacy ratio (17.1%): regulatory limit (14%)
- Liquidity reserve position (38.3%): regulatory limit (20%)
- Employees trained on fraud and ethical conduct
- Nil fines or penalties
- Observance of legal and regulatory requirements

Relevant material matters

- Regulation
- Business in society
- Protecting customers

Capitals impacted

Society

Who they are

- Individual citizens
- Communities
- Civil society organisations
- Non-governmental organisations
- Media
- Suppliers

Needs and expectations

Proactive engagement and participation in socioeconomic initiatives through products, services and community social investment. This includes contributing to:

- National Development Plans
- County Integrated Development Plans
- The UN SDGs
- Global ESG frameworks

In addition, expectations include support to:

- Community initiatives in areas where we operate and have a physical presence
- Endeavours that enhance local economic development, employment and financial literacy
- Women, youth and SMEs

Also

- Provision of material information in a timely manner
- Feedback on grievances, queries and questions raised

Strategic response/value proposition

We actively contribute towards helping create inclusive, sustainable economic growth aimed at positively impacting the communities in which we operate, through:

- Providing products and services with a positive social impact
- Supporting inclusive growth by supporting national development objectives and policies
- Preparing young people for the future of work
- Advancing financial literacy and inclusion
- Supporting an inclusive and responsible supply chain
- Generating and distributing economic value
- Responding to queries and questions in a timely manner
- Proactive engagement and updates

Metrics to measure performance

- Shs 100 million spend on citizenship programmes
- Shs 3.7 billion spend on local procurement
- Shs 10 million on ReadytoWork initiative
- 231 740 youth trained under ReadytoWork
- 303 664 trees planted

Relevant material matters

- Business in society
- Geo-political issues

Capitals impacted

Planet

Who they are	Needs and expectations
The natural resources on which we, our stakeholders and future generations depend.	• Comprehensive climate change response • Proactive management of the environmental and societal aspects including lending practices and our operational footprint • Mobilising funds to support the just transition to a low-carbon economy • Environmental priorities such as a circular economy and responsible consumption

Strategic response/value proposition

We seek to address climate change and play an active role in minimising pressure on nature's resources by:

- Supporting customers in responsible consumption and the transition to a low-carbon economy
- Advancing our environmental and social risk management practices and capabilities in climate risk management
- Minimising our direct environmental impacts

Metrics to measure performance

- 13% reduction in energy consumption
- 26.3% carbon footprint reduction
- Carbon footprint 2 647 tCO_2e
- Five premises EDGE certified

Relevant material matters

- Business in society
- Regulation

Capitals impacted

Value created for stakeholders

Employee wages and benefits Total payroll, employee taxes to government, levies, unemployment fund, pensions, insurance, fleet and private health, other employee support, e.g., housing, interest-free loans, public transport assistance, educational grants, excluding employee training costs. **2021: Shs 9.6bn** **2020: Shs 11.3bn**	**2022** **Shs 10.7bn**
Payments to providers of capital Dividends to all shareholders, plus interest payments made to providers of loans (interest on all forms of debt and borrowings, not only long-term debt).. **2021: Shs 6bn** **2020: NIL**	**2022** **Shs 7.3bn**
Payments to government All of the organisation's corporate taxes plus related penalties paid at the international, national and local levels. **2021: Shs 4.7bn** **2020: Shs 1.5bn**	**2022** **Shs 6.1bn**
Community investments Voluntary donations plus investment of funds in the broader community where the target beneficiaries are external to the organisation e.g. contributions to charities, NGOs, government and research institutes. Citizenship budget spend, scholarships, community CSR partnerships **2021: Shs 0.2bn** **2020: Shs 0.2bn**	**2022** **Shs 150m**
Total capital financing Total loans disbursed to businesses, individuals, government parastatals, agencies, NGOs, groups, including digital platforms **2021: Shs 234.2bn** **2020: Shs 208.9bn**	**2022** **Shs 283.6bn**
Green investment Budget spend on net-zero, e.g. low-carbon power generation, EV, energy efficiency such as retrofits, smart meter readers, pollution controls, recycling, e.g. computers, plastic waste, water management. **2021: Shs 300m** **2020: Shs 300m**	**2022** **Shs 60m**
Local procurement Purchase of goods and services from domestic suppliers.	**2022** **Shs 3.7bn**

Particulars of shareholding

ABSA BANK KENYA PLC			
Top 30 shareholders as at December 2022			
Name	**Domicile**	**Total Shares**	**%**
1. Absa Group Limited	FC	3,720,816,000	68.50%
2. Standard Chartered Kenya Nominees Ltd A/C KE004667	FC	63,161,810	1.16%
3. Patel, Baloobhai; Patel, Amarjeet Baloobhai	LI	47,565,720	0.88%
Sub-total (Top 3)		**3,831,543,530**	**70.54%**
4. Kenya Commercial Bank Nominees Limited A/C 915B	LC	41,863,390	0.77%
5. Standard Chartered Nominees Resd A/C KE11450	LC	37,857,590	0.70%
6. Standard Chartered Nominees Resd A/C KE11436	LC	23,368,656	0.43%
7. Standard Chartered Nominees Resd A/C KE11401	LC	23,368,656	0.43%
8. Standard Chartered Nominees Resd A/C KE11443	LC	21,952,300	0.40%
9. Kenya Commercial Bank Nominees Limited A/C 1065B	LC	15,869,020	0.29%
10. Kariuki, Patrick Njogu	LI	13,963,200	0.26%
Sub-total (Top 10)		**4,009,786,342**	**73.82%**
11. Equity Nominees Limited A/C 00070	LC	13,709,212	0.25%
12. Kenya Commercial Bank Nominees Limited A/C 744C	LC	12,750,320	0.23%
13. Standard Chartered Nominee Account KE15821	LC	12,387,060	0.23%
14. Kenya Commercial Bank Nominees Limited A/C 1019A	LC	12,313,400	0.23%
15. Orang'o, Barney Daniel	LI	12,041,720	0.22%
16. Standard Chartered Nominees A/C 9187	LC	11,246,088	0.21%
17. Jubilee Life Insurance Limited	LC	10,768,684	0.20%
18. Standard Chartered Nominees A/C 9308B	LC	9,782,430	0.18%
19. Standard Chartered Kenya Nominees Ltd A/C KE002315	LC	9,425,000	0.17%
20. Equity Nominees Limited A/C 00099	LC	9,082,000	0.17%
21. Kenya Commercial Bank Nominees Limited A/C 1017A	LC	8,469,780	0.16%
22. Standard Chartered Nominees A/C 9244B	LC	8,096,708	0.15%
23. Mbilu, Eliud Simon	LI	8,068,000	0.15%
24. Standard Chartered Nominees A/C 9360	LC	7,961,148	0.15%
25. Standard Chartered Nominees A/C KE10881	LC	6,912,740	0.13%
26. Standard Chartered Nominees A/C 1715	LC	6,707,240	0.12%
27. Jubilee Health Insurance Limited	LC	6,601,080	0.12%
28. Standard Chartered Nominees Resd A/C KE11305	LC	6,561,345	0.12%
29. Standard Chartered Kenya Nominees Ltd, A/C KE19012	LC	6,469,200	0.12%
30. Westlands Triangle Properties Limited	LC	5,927,700	0.11%
Shares selected		4,195,067,197	77.24%
Shares not selected: 62,376 shareholders		1,236,468,803	22.76%
Shares issued		5,431,536,000	100%
Total holders		62,406	
No. of Absa Bank Kenya Plc cdsc account shareholders		45,383	
No. of Absa Bank Kenya Plc shares at the cdsc		5,079,638,643	

Material matters

Materiality determination process

As a financial services provider, we play a pivotal role in the economic activity of individuals, businesses and the country, helping to create, grow and protect wealth. Many factors affect our ability to create value, including our operating environment, stakeholder relations and engagements, our responses to risks and opportunities, and our chosen strategy. This Integrated Report provides the context for what we have deemed our material matters – those which can significantly affect our ability to create or preserve value, or lead to value erosion, over the short, medium and long term. Our materiality determination process is discussed and illustrated as follows:

	Identify	Assess	Prioritise
Input	• The external environment • Our strategic intent • Stakeholders - legitimate needs and expectations • Key risks and opportunities • General and industry-specific assessments.	• Management deliberations	• Board deliberations • Targets and key performance indicators
Process	We consider the operating context, key risks and opportunities, business and industry factors and stakeholder feedback to assess matters that could impact our ability to create value.	We assess the material issues and determine the extent to which they impact our ability to create value	We prioritise material matters enabling us to respond quickly to risks and opportunities specific to Absa and our strategic intent, magnifying our ability to create value. Prioritisation of the risks and opportunities arising from the operating context is based on our Risk and Issue Classification Standard.

The identification of material issues involves consideration of two key factors:

Stakeholder considerations	Impact on strategy
Take into account issues that are important to stakeholders. These are distilled through a review of legitimate stakeholder concerns and expectations, the operating context in which we operate, and the risks and opportunities confronting the business.	Make consideration of issues that could impact on our strategy and affect our ability for value creation and preservation, as well as value erosion. These issues influence our strategy and how we manage our associated risks, as well as opportunities we explore as a result of these factors.

Material themes

The prioritisation of our material matters identified six aspects as follows:

Geopolitical issues

Geopolitical and socio-economic factors such as the conflict in the Ukraine, the 2022 General elections, regional and local political dynamics as well as the residual effects of the COVID-19 pandemic on supply chains and commodity markets impacted on food supply, availability of industrial inputs and global logistics resulting in inflation and increased uncertainty impacting customers and society. These broad trends with global ramifications continue to affect the economic context, impinging on disposable incomes, the cost of credit and business performance, thus influencing decisions by our key stakeholders.

Technology

The role of business in society is evolving, with expectations that corporates will create prosperity for stakeholders while observing responsible and sustainable business practices. Increased vigilance over corporate conduct and the requirements of society around ethical practices are influencing the choices of consumers. Climate change and environmental risks have the potential to inordinately affect the Kenyan economy if left unaddressed, affecting business and livelihoods. The capital allocation decisions by financiers influence where resources are directed and whether these finances are beneficial or detrimental to the natural environment.

Protecting customers

Technology is enhancing the way financial actors deliver value and improve operational efficiency, while also increasing competition from new entrants demanding adaptability and access to scarce technology skills. Winning in the technology race is an important imperative for the Bank to remain competitive, maintain market share and consistently deliver value. Disruptive technologies remain a present challenge due to the unpredictable nature of technological change requiring the Bank to pursue strong capabilities in innovation and partnerships with technology players to drive improvements in offerings.

Business in society

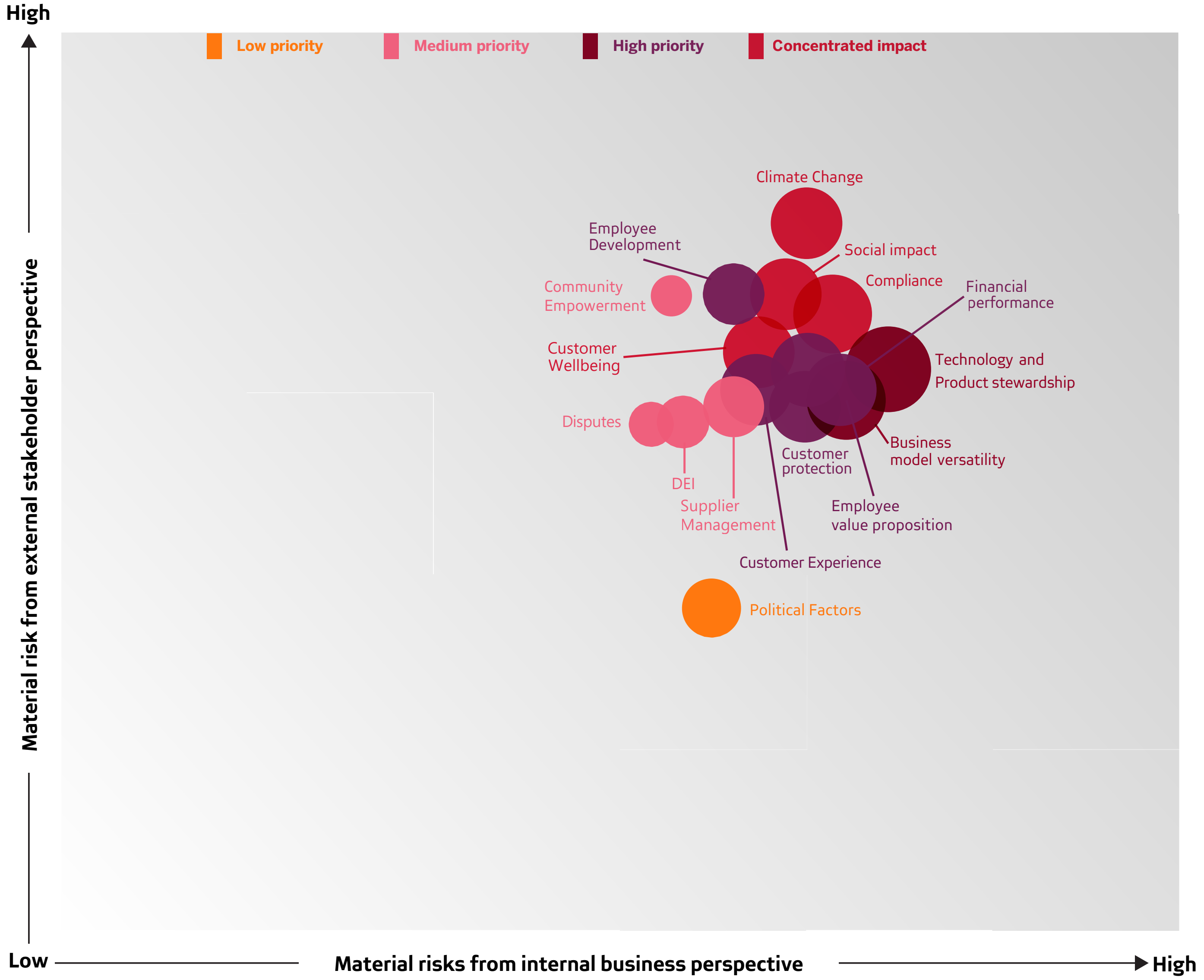
Fraud and cyber-insecurity remain potent challenges for financial institutions, exacerbated by social engineering challenges and ever-shifting fraud trends requiring increased vigilance and responsiveness. Increased engagement with customers is an important necessity to ensure we remain relevant and deliver value to enable them pursue their goals. Dynamic customer expectations require the need to be assertive in delighting the customers and providing best in class customer experiences. Further, accompanying our customers through the different phases of their journeys is essential in showcasing our commitment to bringing their possibilities to life.

Meaningful work

Increased regulation create an orderly playing field for financial institutions but may also result into costly implementation requirements and enhanced governance obligations. Regulatory changes have been dynamic, responding to contextual trends including alignment with the increased use of digitisation, need for cyber security, climate change, greater vigilance on money laundering and ESG considerations. Regulations are expected to continue to evolve and the Bank is required to proactively monitor, assess and adapt to regulatory requirements.

Regulation

Work and the way in which it is delivered is evolving fast. Aspects like hybrid working, the gig economy, automation and artificial intelligence and remote working are increasingly becoming mainstream. The workplace itself is being re-imagined from static to dynamic, offering opportunities for collaboration across teams and borders. Further, competition for future skilled employees with technological skills and strong personal attributes has increased, requiring a strong and sustained employee value proposition to attract and retain them. Demographic changes have created the need for greater purpose to work, linking what employees do to societal aspirations.



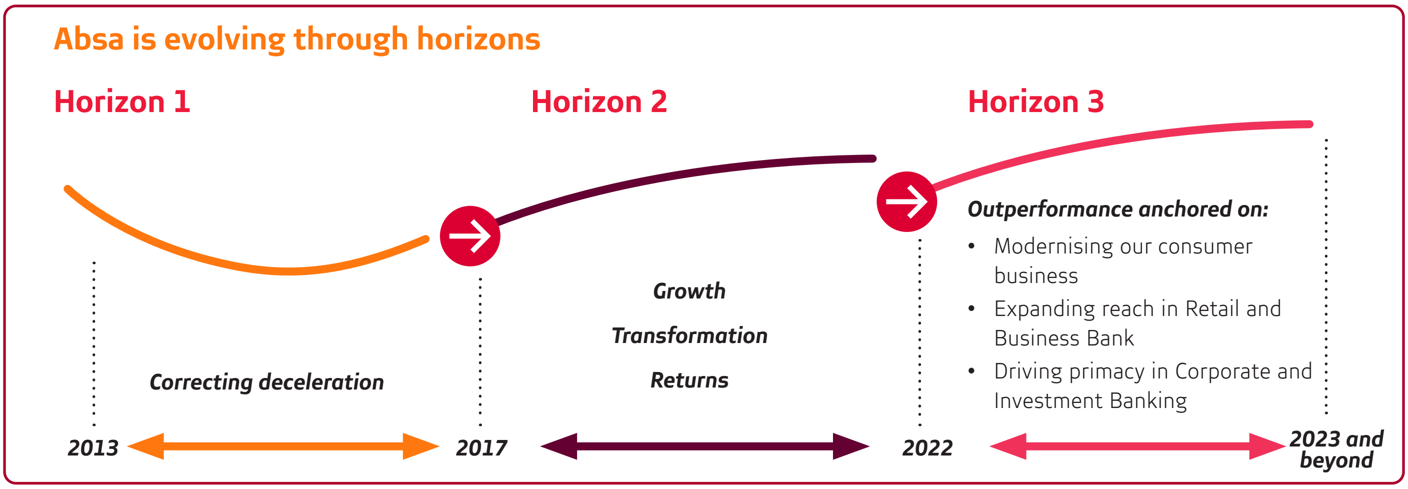
Strategy review

Our strategy for the next horizon

Absa believes that being a purpose-led organization is critical for navigating difficult choices with agility and ensuring we meet the needs of our broader stakeholders while also rallying and inspiring our people and customers. We reached the logical end of our second strategic horizon in 2022 by implementing our Growth, Transformation, and Returns strategy (GTR). We outperformed in all three key measures: we delivered above-industry growth rates and thus gained market share, we significantly transformed our business and met our efficiency targets, and we delivered significant returns to our shareholders.

We have assessed the foundation for the next horizon by conducting a meticulous and extensive research process on how to live our purpose in the next horizon. We have evaluated our strategic options and priorities to transform the Bank to support our customers in a truly collaborative manner, and the customer will determine where we go from here. Our goal is to evolve our business model to support rapid but sustainable growth. To drive scale and reach of our customer base, we will leverage our most significant competitive advantage, which is our brand.

GTR provided sufficient capacity for accelerated investments to build a relevant and agile business, as well as a platform for us to raise our ambition even higher in order to truly “outperform” through a transformed organisation anchored on our purpose. The next horizon will result in a mental shift for Absa, from “perspiration” to “inspiration,” as we seek to connect with the organization’s heart. While financial measures in the last GTR horizon will continue to be important, we will place a greater emphasis on leading measures that support the journey of building a relevant and modern-day business. Ultimately, our next strategic horizon is premised on ‘outperformance’.



Strategic framework

To realise our vision, our Group strategy outlines objectives to guide our execution and measure performance. Our Group aspiration is to be a leading African Bank anchored on our new corporate purpose of *Empowering Africa’s tomorrow, together...one story at a time* with six focus priorities: A diversified franchise with deliberate, market-leading growth, primary partner for our clients, a digitally powered business, a winning, talented and diverse team, and an active force for good in everything that we do.

Absa Bank’s strategy is going to be placing greater emphasis on leading measures that support the journey of building a relevant business with the objective of becoming a modern-day consumer financial services business with expanded reach of customers supported by a continuous customer inspired innovation philosophy on channels and products. ‘Modern-day’ is a moving target, that every day we will benchmark our consumer business to what the market offers and what consumers need, at that moment, and continuously ensure that our business is connected to the present.

The Bank’s objective is to grow Business Bank to be a clear market leader in the industry, which is core to the engine that drives our economy. The Kenyan market has a significant opportunity in small and medium enterprises, which are the economic bedrock contributing approximately 50% of GDP and more than 80% of employment. Penetration of formal banking services remains low, thus presents a significant upside for revenue growth. Our ambition is aligned to priorities of the government in supporting the SME segment to fuel growth and create employment opportunities for young people. Absa will build capabilities towards being a leading Corporate and Investment Bank in connecting ecosystems and in doing so serve our customers’ value chains and thus become the primary partner for our clients.

The Bank will achieve these goals through a digitally powered business, a brand that is trusted and centre stage in driving Absa towards a sustainable future and delivered by our brave, passionate and ready colleagues with whom Absa becomes the home of talent and diversity. We will measure success through the impact that we make and the people that we reach in line with our new corporate purpose.

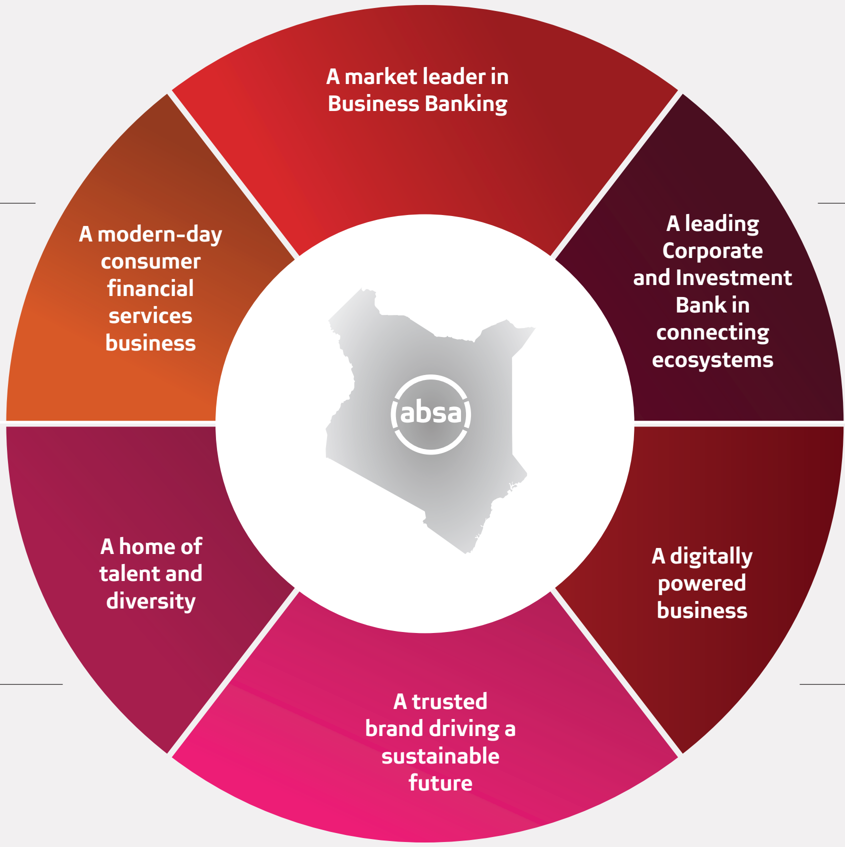
The strategy for 2023 and beyond is founded on three priorities and three enablers

Our three priorities...

Our ambition is to build a scalable consumer banking business that is digitally enabled to drive reach, targeting a significant increase in profitable customers. This effort will involve digitalising our retail bank to the core, while evolving Timiza into a Mobile Financial Services business. We will target to win in the Affluent segment, advance our relevance in core middle segment and penetrate the mass and youth segments to secure the next generation of core middle customers.

Our ambition is to expand our reach towards market leadership through enhanced physical and digital distribution, innovation of our propositions and a step change in customer experience. We will do this while investing for efficiency to drive profitable scale.

Our ambition is to build a leading Corporate and Investment Bank (CIB) in connecting client ecosystems. Our objective is to deliver the firm capabilities and in doing so, become the primary partner for our clients. This effort will leverage best-in-class transactional banking capabilities; our people, because in CIB it takes talent to win and a more connected East Africa CIB network with a hub in Kenya.



Our three enablers...

Our ambition is to build a home of talent underpinned by a culture that fosters innovation and embraces all forms of diversity and inclusion, being cognisant of the evolving needs of colleagues.

Our ambition is to become the number 1 Trusted Financial Services Brand in Kenya. This effort will involve building a locally relevant, always-on brand that drives a sustainable future and being a Force for Good in the communities in which we operate, while building relevance, consideration and connection with our customers, colleagues and stakeholders that will ultimately lead to brand advocacy and loyalty. This will be enabled by a deep understanding of our customers' current and emerging needs as well as award-winning execution.

Our ambition is to build a digitally powered bank through, among others, sustained investments towards modernising our technology chassis, executing a digital transformation programme leveraging cutting-edge cloud-based technologies, enabling scale in partnership and acquisition through the launch of an Open API Gateway. Additionally, we target to overhaul our back-end processing by not only automating but augmenting the automation with machine learning and artificial intelligence to drive operational efficiency and enhance early fraud detection capability. We have a five-year horizon within which we target to markedly demonstrate digital maturity.

Strategic trade-offs and impacts on our capitals

Trade-off between hybrid work and employee connectedness

Hybrid work creates a need for better coordination of employees. A key trade-off is the need to ensure that colleagues remain connected to the Bank's culture and fellow colleagues, while also being effective when working from home. Employee connectedness, including the sense of belonging and being engaged, can be hampered by remote working. Research shows that disconnected employees have a higher risk of turnover, lower productivity and lower quality work.

Capitals impacted

Trade-off between going for scale to being a niche player

We have opted to pursue scale as a strategic approach as opposed to serving a niche customer base. Over the years, we have built a strong franchise that was focused on niche customers with specialised products and services that were tailored to their needs but our new focus will cascade our capabilities to pursue a wider breadth of customers than usual. This new approach will result in greater focus on mass markets and building the capabilities to solution broader segments.

Capitals impacted

Trade-off between focusing on large corporates to SMEs

Over the years, we have focused strongly on serving the corporate and investment banking segment with emphasis on large corporations and institutions. Our brand has been synonymous with these establishments and we have established an enviable track record in serving this segment. In the new horizon, we intend to move from focusing on large corporates and institutions to SMEs. This is in line with our intent to grow Business Banking and prioritise the SME segment as we pursue opportunities in the mainstay of the Kenyan economy. While we will continue serving our traditional customer base, our emphasis will shift towards SMEs.

Capitals impacted

Trade-off between being a locally relevant brand versus a global brand

As an international brand, we bring extensive networks and global know-how to benefit customers, the financial sector and the Kenyan economy. We maintain exceptional standards in our core mandate, resulting in a reputation as a credible and reliable financial institution. However, we have lagged in being a locally relevant Bank. A key intent in our new horizon is to enhance our relevance and be considered as a truly Kenyan brand that resonates with the aspirations of Kenyans.

Capitals impacted

Trade-off between sustainable procurement and engaging deserving suppliers who don't meet the threshold

Our sustainable procurement agenda requires suppliers to meet a specific ESG threshold. We intend to cascade sustainable practises in our area of influence, contributing to the Sustainable Development Goals and Kenya's development aspirations. However, this selective approach means leaving out businesses that often meet other key considerations, such as being run by marginalised persons, but are not able to attain our procurement threshold.

Capitals impacted

Resource allocation

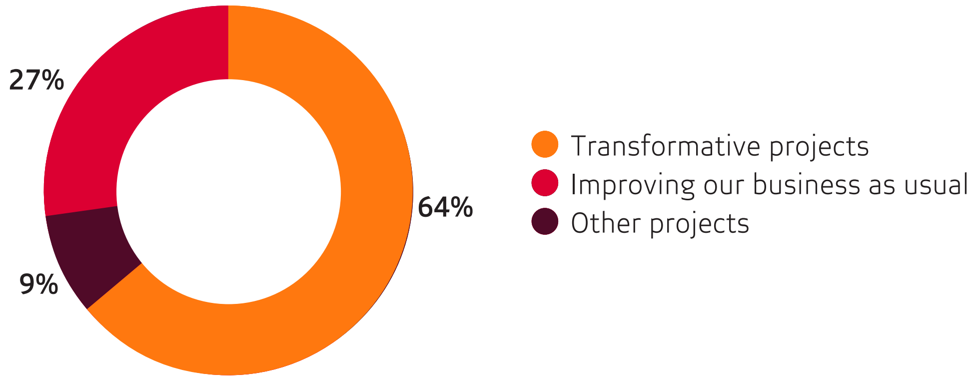
To achieve our strategy, we have allocated resources predominantly for transformative projects that will enhance our enablers around technology, people and brand. We have a dynamic approach to investments and evaluate every prospective deployment of capital in terms of our strategy, taking into consideration the best market opportunities in line with our risk appetite and potential for stakeholder value creation.

Technology: In line with our intent, we will modernise our technology to deliver cutting-edge capabilities and enhance the maturity of our consumer financial services business to deliver digital banking propositions while evolving the technology operating model and managing the day-to-day technology obligations, including ensuring cyber security.

People: Further, we will allocate resources to enhance our employee value proposition through strategic hires and enhancements in the employee experience to sustain our employer of choice credentials. We aim to foster a culture that inspires innovation and risk-taking to enable colleagues to do things differently in a way that meets ever-changing customer needs, while also encouraging diversity and inclusion.

Brand: Enhancing local relevance is a key aspect of our brand strategy, as we seek to increase consideration while always improving consumer experience and affinity. Our commitment to be a force for good in society will be amplified through enhanced investments in our sustainability initiatives.

In 2023, our capital allocation to transformative projects and investments in supporting the business, in line with our strategic intent, will be as follows:

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Our performance

Reflections from our Interim Chief Financial Officer

> ***2022 was a stand-out year as we achieved our financial objectives while positioning the firm for sustainable outperformance going into the future.***

Financial capital

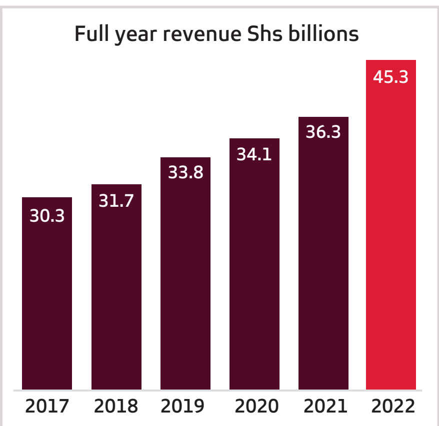
The year 2022 marked a significant milestone for Absa Bank Kenya PLC as we finally put the multi-year business restructuring programme behind us and completed the business build-out to better serve our customers while generating market-leading returns for our shareholders.

We also concluded our 2017 to 2022 strategy period, and we are pleased to report that we exceeded expectations on the three principal financial measures that underpinned the Growth, Transformation and Returns strategy.

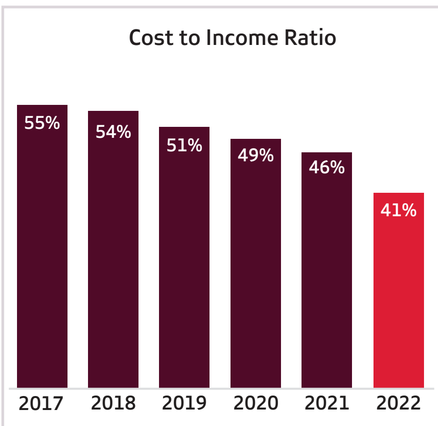
This milestone was achieved while navigating an ever-changing operating environment, notable of which was the recent global health crisis caused by the coronavirus (COVID-19) and the ongoing geopolitical tensions. And while the local operating environment has not been insulated from these exogenous factors, the fact that the Kenyan economy under transition presents a secondary challenge to financial management. This meant that initial financial assumptions at the start of 2022 had to change, and consequently, the financial management approach had to adapt throughout the period under review.

We ran our business in 2022 mindful of the operating environment while being ever more focused on delivering the desired financial obligations. In this regard, as we exited the severe periods of the COVID-19 pandemic, we chose to continue with our philosophy of prudence in risk management while seizing seasonal growth opportunities that came our way underpinned by the commitment to support our customers. In every quarter in 2022, we reflected on the operating environment and rebuilt our financial scenarios to support a dynamic financial management approach.

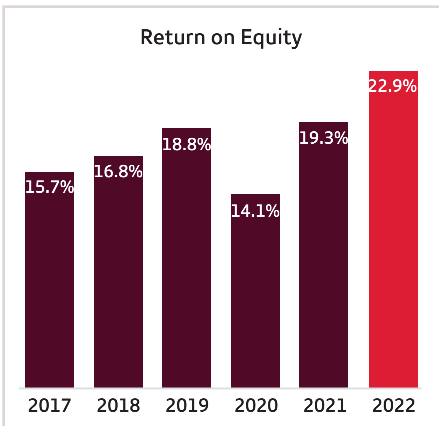
Growth



Transformation



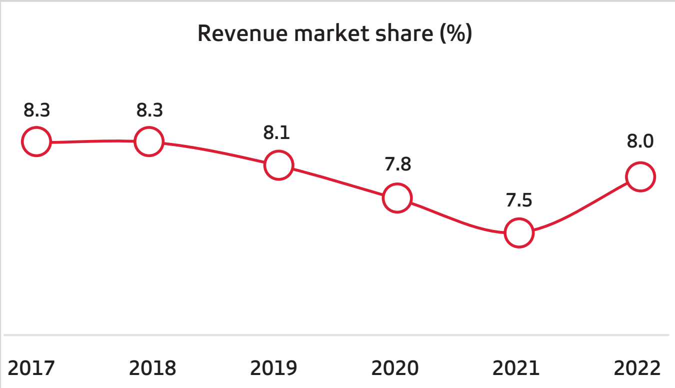
Returns



Performance highlights

This approach enabled us to prudently protect our momentum towards achieving desired principal financial obligations as highlighted below.

We achieved revenue growth ahead of market growth rate

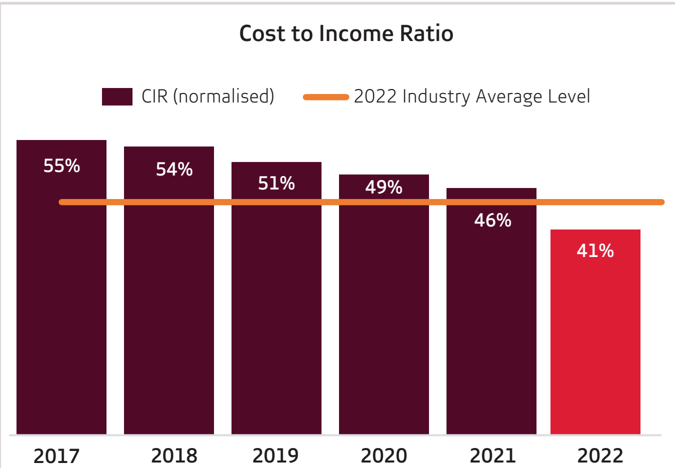


The Bank posted a 25% growth with well diversified revenue sources across business segments and product lines: Net Interest Income (NII) and Non-Funded Income (NFI) accounting for 71% and 29% of total revenue, respectively.

NII increased by 28% to Shs 32.3 billion driven by 21% growth in balance sheet and improved yields due to the repricing of the loan book in line with the operating environment.

NFI increased by 18%, driven by growth in FX income anchored on expanded margins and turnover in the year.

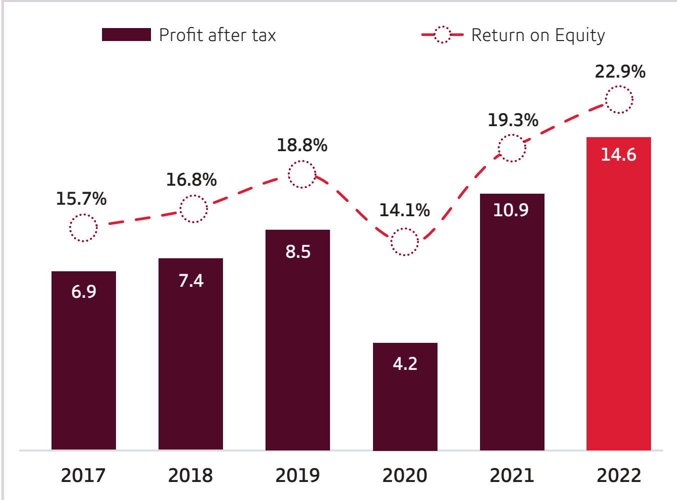
We achieved market leading efficiency levels which supports reinvestment

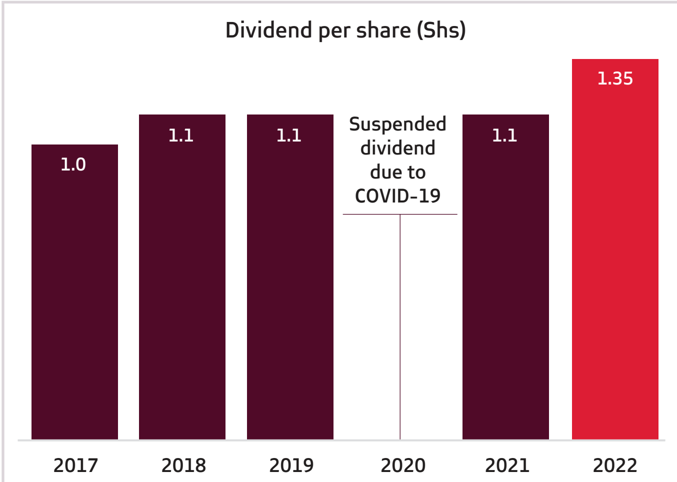


The Bank's total costs stood at Shs 18.7 billion, which represents a 12% growth, despite high inflation and heavy investments.

This performance is due to diligent cost management initiatives and improved operational efficiencies. Top of these initiatives are lower variable costs as a result of the automation of our processing centres, investment in alternate channels and branch rationalisation programmes.

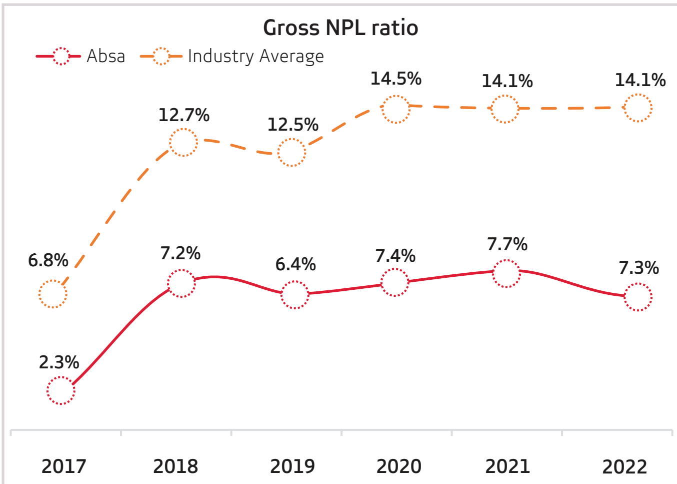
We achieved significant growth in headline earnings and returns





Our returns have improved anchored on business momentum and aligned to our commitments on shareholder returns and as such; we have increased dividend in 2022 by 23%.

Our portfolio quality is best-in-class



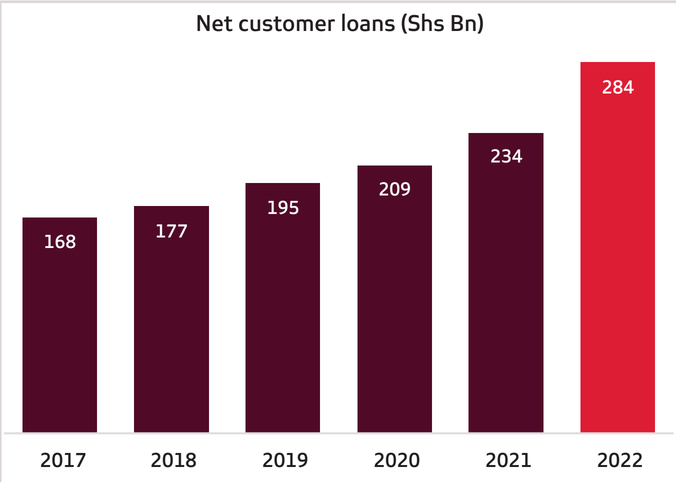
NPL coverage ratio	2018	2019	2020	2021	2022
	77%	77%	71%	78%	81%

Impairment recorded an increase of 43% from Shs 4.1 billion in 2021 to Shs 5.8 billion aligned to loan book growth and prudent forward-looking provisions.

However, Gross Non-Performing Loans (NPL) at 7.3% was better than the industry average at 13.3%, and the average coverage ratio stood at 81% against the industry average of 63%, a true reflection of prudence and adequacy in provisioning. Notably, our portfolio quality improved despite the double-digit growth in our loan book.

Our balance sheet build up supports future growth

Loan book momentum

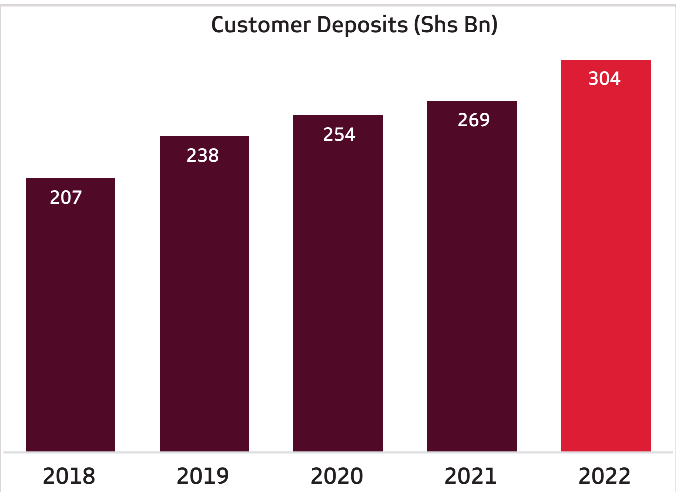


The Bank reported a 21% growth in customer assets to close at Shs 284 billion in 2022, with growth observed across all business segments.

Our key focus products, namely trade loans, mortgages, unsecured lending and overdrafts recorded material year-on-year growth in line with our purpose of bringing possibilities to the lives of our customers.

Key activities in building the asset book included strategic partnerships and leveraging ecosystem banking to reach a wider customer population.

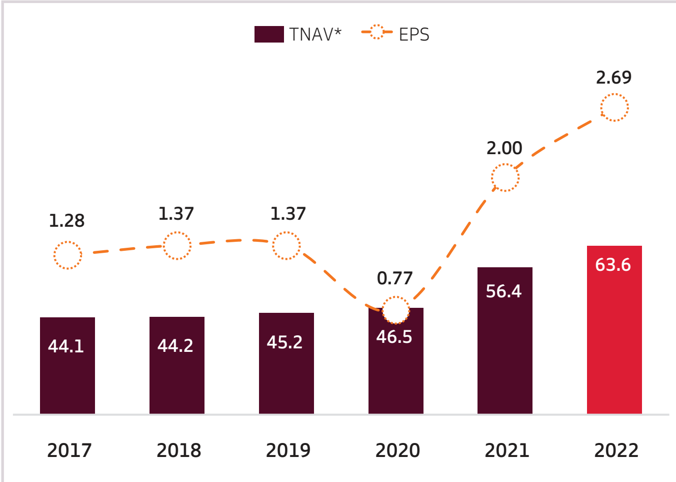
Steady deposit growth



Customer deposits grew by 13% in 2022, boosted by growth in term deposits. Our cost of deposits increased marginally by 17bps given the prevailing market conditions and increased interest rates. Interest expenses increased to Shs 8.5 billion from Shs 6.8 billion in 2021. Although growth was recorded across all business segments, corporate business was the main driver, a testament that our corporate business proposition continues to bear fruits.

Strategic investments made on the transactional banking front in the year included the roll-out of the Absa digital account opening platform.

The franchise value continous to improve sequentially

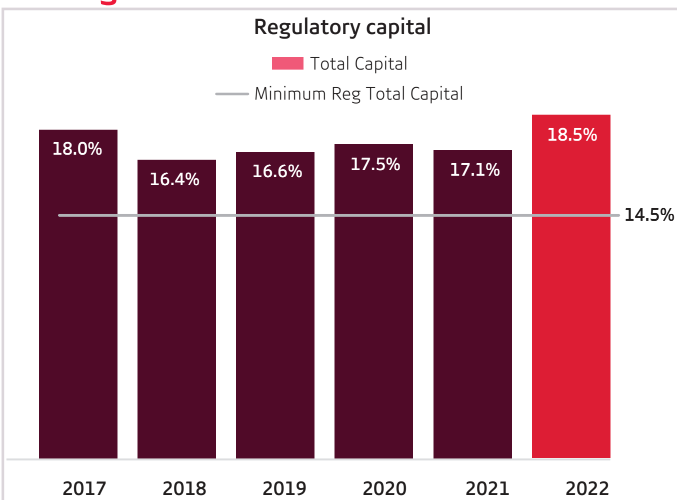


* *TNAV : Tangible net asset value is the value of Absa's tangible net assets divided by its current outstanding shares.*

Over the strategic cycle 2018 - 2022, our share price has out-performed key indices having appreciated by 28% which is better than the banking industry listed stocks, the NSE All Share Index and the NSE top 20 stocks over the same period.

Earnings per share more than doubled with the tangible net asset value growing by 1.4x over the strategic cycle. This supported investment case for our stock, which is trading at a premium valuation of 1.05 price to book value.

We have adequate capital buffers to support future growth



Our capital and liquidity ratios remained very strong, showing sufficient headroom above the regulatory requirements. Our total capital adequacy ratio closed at 18.5% and liquidity position at 33.6% against the regulatory limits of 14.5% and 20%, respectively.

We are also pleased with the performance momentum over the strategic horizon as disclosed below.

Income statement analysis

Shs 'Millions	2017	2018	2019	2020	2021	2022	2017 - 2022
Net interest income	21 801	21 992	23 179	23 381	25 257	32 315	1.5x
Non-interest revenue	8 457	9 702	10 588	10 700	11 043	13 018	1.5x
Total revenue	30 258	31 694	33 767	34 081	36 300	**45 333**	1.5x
Operating expenses	(16 782)	(17 178)	(17 285)	(16 647)	(16 664)	(18 660)	1.1x
Pre-provision profit	13 476	14 516	16 482	17 434	19 636	**26 673**	2.0x
Impairment on loans and advances	(3 115)	(3 871)	(4 201)	(8 585)	(4 087)	(5 824)	1.9x
Profit before tax	10 361	10 645	12 281	8 849	15 549	**20 849**	2.0x
Exceptional items			(1 529)	(3 202)	**0**	**0**	
Profit after exceptional items	**10 361**	**10 645**	**10 752**	**5 647**	**15 549**	**20 849**	**2.0x**
Income tax expense	(3 435)	(3 230)	(3 296)	(1,484)	**(4 679)**	**(6 262)**	**1.8x**
Profit after taxation	**6 926**	**7 415**	**7 456**	**4 163**	**10 870**	**14 587**	**2.1x**
Normalised profit after tax	**6 926**	**7 415**	**8 516**	**4 163**	**10 870**	**14 587**	**2.1x**

Balance sheet build-out to support future growth

Shs 'Millions	2017	2018	2019	2020	2021	2022	2017 - 2022
Total assets	271 572	325 313	374 904	379 441	428 722	**477 257**	**1.8x**
Net loans and advances to customers	168 397	177 354	194 895	208 855	234 234	**283 579**	**1.7x**
Liabilities	227 474	281 107	329 715	332 936	372 274	**413 644**	**1.8x**
Deposits due to customers	185 977	207 408	237 739	253 630	268 717	**303 751**	**1.6x**
Total equity	44 098	44 207	45 189	46 505	56 448	**63 613**	**1.4x**
Total equity and liabilities	271 572	325 313	374 904	379 441	428 722	**477 257**	**1.8x**
Net advances to deposits (%)	91	86	82	82	87	**93**	

Outlook

The performance in 2022 gives us the confidence to face the future. We believe that we have a good foundation on which we can modernize our business for the benefit of our customers, shareholders and other stakeholders, and we see adequate reinvestment capacity in our financial position to support these endeavors.

To do this, we are mindful that banking is going through significant transformation and therefore central to our investment case will be digitally powering our business. This means that our capital expenditure profile will accelerate, and while our operating expenditure will also increase, we anticipate a net benefit in efficiencies given the focus on outperforming in revenue.

We also anticipate certain transitions in the macroeconomic environment that will require us to extend into 2023 the risk management philosophy that has served us well in the past. We aim to manage risk and protect profitability while meeting the obligations to support our customers and clients through the cycles that come our way. And in doing so, we hope to continue generating market-leading returns for our shareholders.

I remain confident of the addressable opportunities ahead of us, with gratitude to my colleagues at Absa Bank Kenya PLC for a record financial year in 2022.

Moses Muthui
Interim Chief Financial Officer

Human capital

For Absa, human capital refers to the competencies and capabilities of our people and the contribution that they make in aligning with our purpose and strategic direction. Our people ambition is to create a thriving, future-fit organisation that attracts, develops and retains the best people through a differentiated workplace experience that brings their possibilities to life and offers competitive compensation.

Our goal is to embed an entrepreneurial culture of brave, passionate and ready colleagues with the aim of becoming the employer of choice and a fun, vibrant and great place to work.

Related material matters
Technology

Strategic response
A home of talent and diversity

Contributing to SDGs
SDG 4 SDG 8 SDG 10

2022 was a challenging year for our colleagues as they adjusted to a hybrid way of working with the attendant changes in work modalities, productivity assessments, and ensuring wellness. Colleagues showed greater adaptability to the new ways of working, and we issued a work-from-home policy to provide guidelines on this aspect. Our emphasis from 2021 on a future-fit structure that is efficient, enabled by technology, and effective in delivering value continued in earnest.

With the worst phase of the pandemic seemingly behind us, we focused on enhancing performance under the new ways of working, including revamping our performance assessment approaches and reinvigorating employee engagement. We aim to support our employees to be future-ready through learning opportunities and foster diversity and inclusion in our workplace.

Colleagues – who they are

Headcount	Women	Men	Women in Management	PwDs
2 070	50%	50%	48%	1%

Our performance

Colleague experience survey

	Absa Kenya 2020	Absa Kenya 2021	Absa Kenya 2022	Absa Kenya Trend
Participation rate	85%	87%	90%	↑
Colleague Experience Index	70%	71.9	73.4%	↑
Job satisfaction	7.47	7.69	7.81	↑
Employer advocacy	+34%	+35.47%	+41.3%	↑
Colleague Sentiment	Delighted - 27% Satisfied – 53% Not happy – 20%	Delighted - 27% Satisfied – 51% Not happy – 22%	Delighted – 29.8% Satisfied – 48.5% Not happy – 21.7%	↑

Themes for 2022

Driving a step change in performance
Focusing on a step change in sales and productivity

Building capacity and capability for business growth
Empowering people managers to drive engagement and performance

Learning and development
Imparting skills and preparing employees for the future world

Elevating employee experience
Launch of new employee value proposition (EVP) campaign **#MyAbsaStory.**

Wellness initiatives
Promoting all-round health and wellness

Diversity, Equity and Inclusion (DEI)
Being an employer of choice for all

Talent retention
Being an employer of choice

Revamping recognition
Enhancing recognition and awards in line with colleague feedback

Driving a step change in performance

In line with our overall business strategy that is focused on growth, we embarked on a significant improvement in sales and productivity. This process influenced most of the decisions that we made around our people, as we noted improved productivity in the prior year and sought to reinforce value creation for our stakeholders. Although our performance has always been strong, this year's emphasis sought to aim even higher. To embed and drive high performance, we conducted quarterly performance reviews with appropriate corrective actions, where required. All colleagues with performance challenges were supported through back-on-track plans and performance grievances were resolved with expediency. People leaders were empowered to provide coaching and mentorship and manage performance through Workday. Importantly, we engaged in sales coaching as part of training and development.

Building capacity and capability for business growth

At Absa, we recognise that people managers play a pivotal role in building a great working environment, driving a high-performance culture, and unleashing the potential of every employee. They are also key drivers of employee engagement or disengagement, and ultimately, they influence retention of talent. This year, we designed an anonymous 270-degree tool that allows managers to self-evaluate and get feedback from their direct reports and their line managers. The manager then receives a report, which is used to design bespoke development interventions for them with the aim of enhancing their capabilities to lead their teams.

Wellness initiatives

The pandemic brought increased attention to employee wellness and safety with a marked interest in emotional and mental health aspects. Wellness has always been a top priority at Absa, and we are committed to ensuring employees health, safety, and wellbeing and to providing a safe work environment.

In 2022, through our soul food sessions, we broadened our engagement with employees to cater for non-health-related wellness issues, including personal finance, parenting, and education on pension. We also covered mental and emotional resilience, lifestyle disease management, cancer facts, prevention, screening, and treatment, and increased understanding of health metrics such as Body Mass Index (BMI), blood sugar levels and blood pressure.

To encourage active living, we held physical online workout sessions on Tuesdays and Thursdays. Our employee health reward programme celebrated employees for the sustainable and objective use of their medical cover. We hosted a wellness month with a drive to encourage healthy living, including HIV testing and counselling, and audiometric tests for colleagues working in the contact centres, and other medical tests conducted at the workplace.

We continued with care calls through professional counsellors who contact colleagues and engage on a variety of wellbeing matters as part of our psycho-social support to employees. In the course of the year, we launched our wellness magazine and produced two editions comprising articles from colleagues covering a variety of wellness topics.

Virtual hurdles

We also continued with virtual huddles, including weekly morning huddles where team members met online and deliberated on work-related and other material issues. These meetings are hosted by functional heads and allow colleagues to engage each other on a regular basis.

Elevating employee experience

Colleague Chill-out – It had been three years since colleagues had come together due to the pandemic. The event dubbed the colleague chill-out was held simultaneously in four different locations across the country. During this event, colleagues got to see each other again after a long time, and we also took time to recognise colleagues who had made a significant impact in the first half of the year. It was a memorable event.

#MyAbsaStory

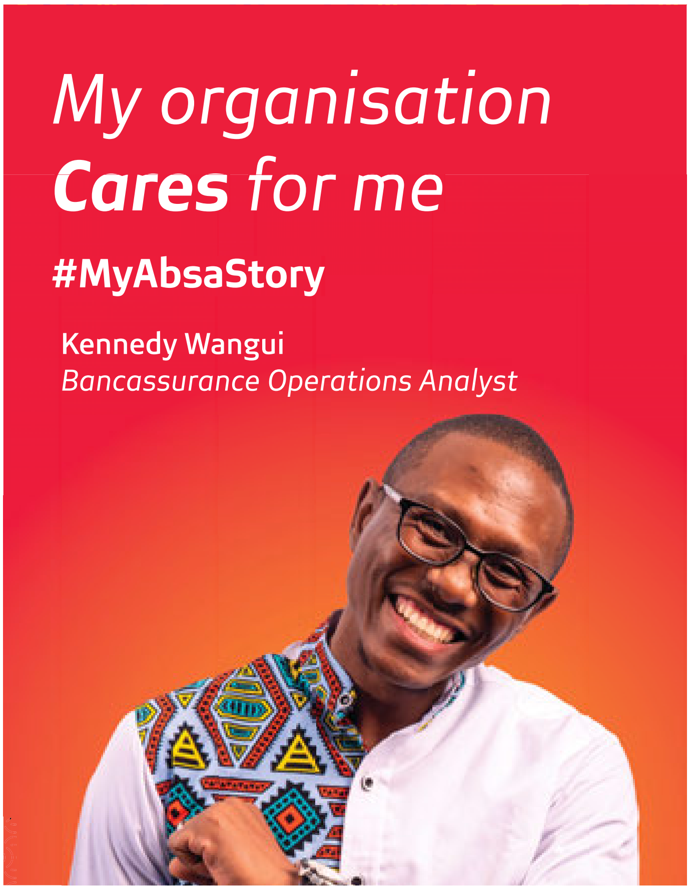
This year, during the colleague chill-out event, we launched the EVP Campaign, dubbed #MyAbsaStory. The campaign amplifies our value promise, transforming our workplace, underpinned by four core pillars:

1 Care
- Quality core health cover
- Wellness support and offerings covering financial, mental, physical and emotional health
- COVID-19 response – toolkits, communication, special leave and vaccination drives
- Recognition of life cycle needs, e.g. parenting, retirement, etc.
- Hybrid and flexible ways of working
- Psychological safety – a listening organisation

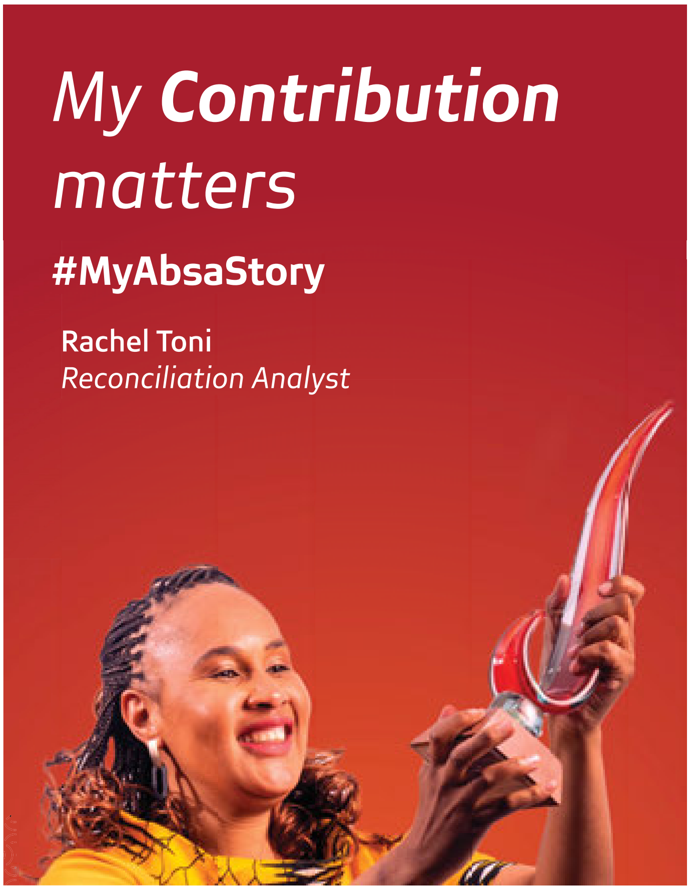
2 Culture
- Inspiration and values
- Strengths-based culture
- Promotion of diversity, equality and inclusion
- Reputation of the company and brand
- Colleague experience – moments that matter supported by great people management
- Quality of work relationships: Collegial and familial environment
- Dialogue, consultation and communication

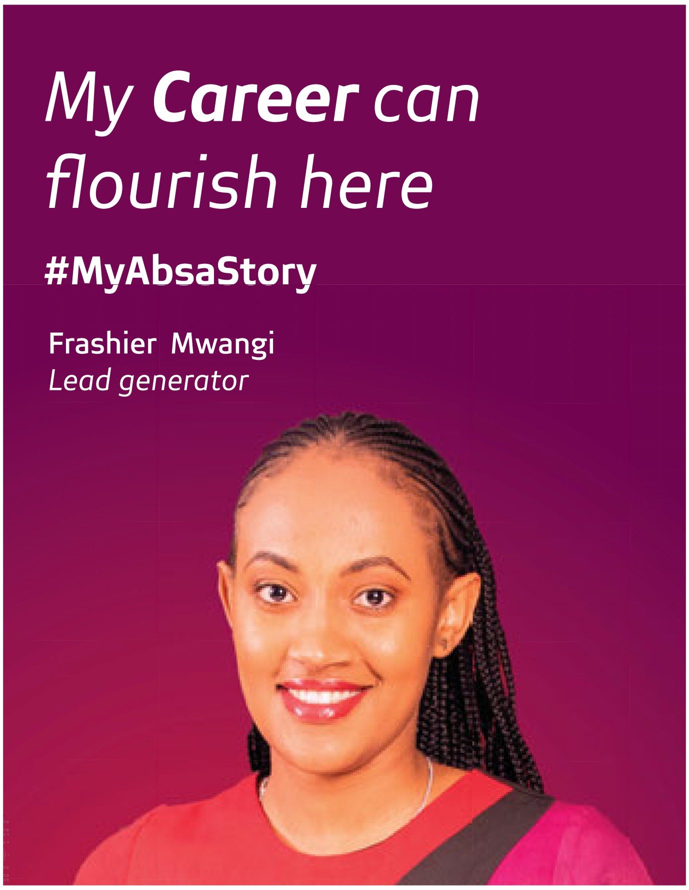
3 Contribution
- Enabling Environment – physical work environment, tools and equipment for the job
- Competitive market-based pay and benefits
- Differentiated short-term incentives based on performance
- Regular feedback on performance
- Recognition awards
- Challenging work with appropriate autonomy

4 Career Growth
- Meaningful career experiences, e.g., secondments, job shadowing, stretch assignments, projects and involvement in squads and sprints
- Learning and development opportunities, including mentoring and coaching
- Virtual learning platforms – Udemy, LinkedIn Learning, Absa Digital Campus, Absa Leadership Academy


My organisation Cares for me
#MyAbsaStory
Kennedy Wangui
Bancassurance Operations Analyst


My strength enhances our culture
#MyAbsaStory
Bahati Juma
Universal Banker


My Contribution matters
#MyAbsaStory
Rachel Toni
Reconciliation Analyst


My Career can flourish here
#MyAbsaStory
Frashier Mwangi
Lead generator

Launch of Possibilities Awards

This year, we transitioned from the Be The Reason (BTR) Awards launched in 2017 to the Possibilities Awards. We reviewed the recognition categories to reflect the feedback received during last year's colleague experience survey and the dipstick survey carried out in 2021. In response, we created categories in four main areas covering:

- Performance
- Customer
- People
- Community

Recognition Board Portal

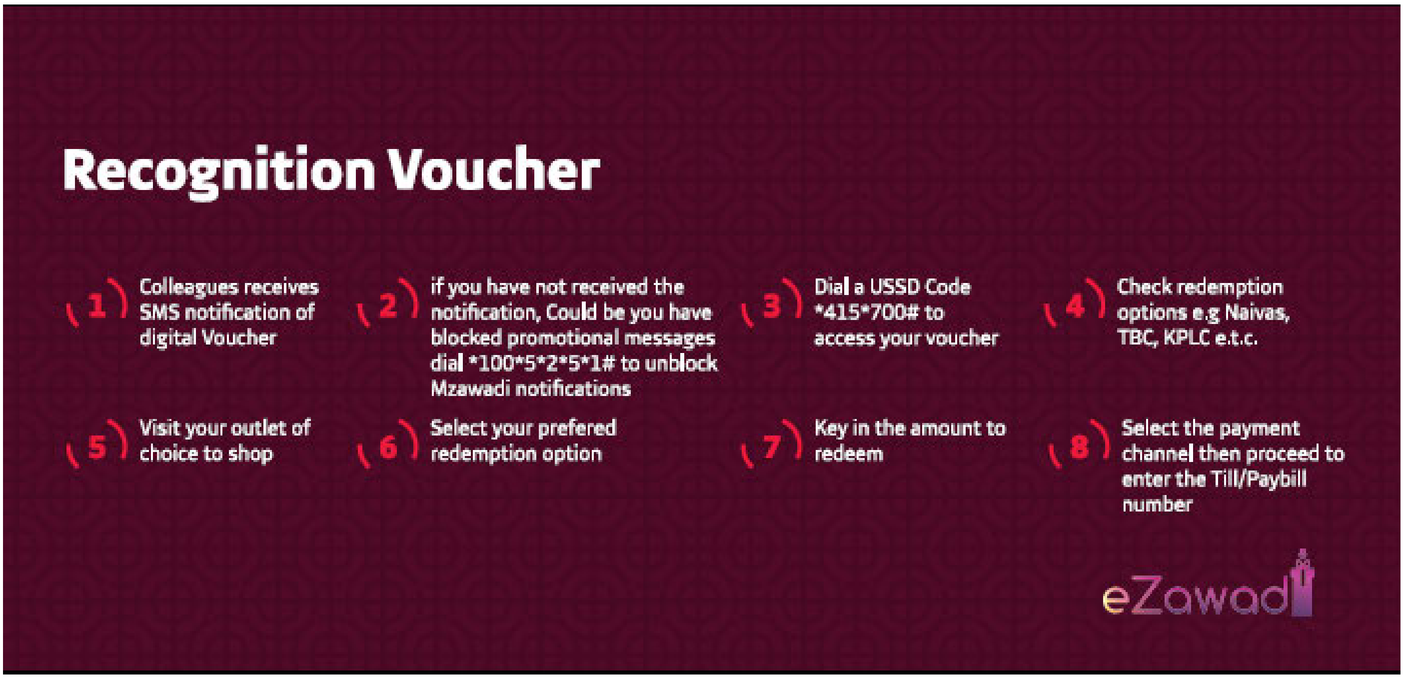
An 'always-on' portal where colleagues' contributions are regularly updated and ready for viewing, enabling transparency and sharing of ideas.

Innovation Portal

We launched an Innovation Portal enabling staff to place their big ideas for review.

Launch of E-Zawadi

As part of the revamped recognition, we launched the first ever E-Voucher that enables staff to redeem their reward in the way that suits them most and through any supplier with a till or paybill number.



Learning and development

Empowering our workforce is an important aspect of nurturing a high-performance culture. We aim to enhance the capabilities of our colleagues by enabling them to deliver on their mandates. We strive to create a culture that encourages lifelong learning. Overall, we align our employees' capabilities with their mandates so that they can deliver on our strategic objectives while also supporting their personal and professional development and growth.

In 2022, we focused on empowerment so as to strengthen a high-performance culture. We provided self-learning portals such as Udemy and LinkedIn Learning, through which employees can attain certification and become multi-skilled. This is in line with our objective to prepare employees for the future of work by equipping them with future skills. Key future skills covered include:

- Digital literacy (advanced computer skills)
- Analytical and critical thinking (innovative skills)
- Self-management (the art of execution, remote working)
- Emotional intelligence (self-awareness, self-motivation)
- Transformative leadership (leaders with the ability to navigate disruptions)

We have also invested in accelerated programmes for top talent and facilitated Exchange Development Programmes for exposure to the wider Absa Group. In 2022, 13 of our top talent went through the accelerated programmes while 19 colleagues had the opportunity of exposure, learning and experience through the exchange development programmes. In terms of technical skills, we have invested in specialised professional courses.

Learning and development summary

udemy business

Skill Insight

Below are some of the areas in which colleagues are investing time

- Technology Skills – 71.4%
- Business Skills – 20.7%
- Personal Development programme Skills – 7.9%
  - We have 1 333 users currently accessing the Udemy platform, an increase of 231 new sign-ups realised from June to date
  - This represents about 60% of the total headcount
  - 5 694hrs and 39 minutes consumed on the portal against 3 838hrs and 29 minutes consumed in April.

LinkedIn Learning

Skill Insight

Below are some of the areas in which colleagues are investing time

- Banking – 49%
- Risk Management – 24%
- Financial Analysis – 23%
- Analytical Skills – 18%
  - We have 79 users on the platform, meaning that the licence purchased at the beginning of the year was effectively used.
  - 166 hours have been consumed on the platform YTD with an average of 4 hours and 5 minutes per person.

absa My Learning System

Masterclasses and Group-related programmes.

- An increase in user utilisation from 2 278 as at June to 2 460 (including Managed Service Personnel) for the Accelerated Programme
  - Leap - 7
  - Sustain - 1
  - Transform - 5
- Virtual Training.

Get Abstract

The world's largest library of book summaries and articles. Provides users with abstracts of the latest published books and business articles

Available to 69 senior leaders, including all Board members.

Top talent development

Certification Programmes

1.Moody's Credit Certification

Moody's Level 1&2 classes for 2022
39 learners from Credit, Risk, CIB, COO and RBB were enrolled for the session.

2.CISI

Introduction to securities and investment - The course offers a comprehensive introduction to the financial service sector with a specific focus on investment.

3.ICAP Certification

For the Treasury, Markets and Compliance team.

4. Masters in Data Science

One colleague enrolled as part of the approved development needs.

Exchange Development Programmes

19 colleagues had the opportunity for exposure, and experience across various countries such as Zambia, South Africa, Ghana, Mauritius and Botswana, targeted at developing skills that can then be translated in-country and benefit the function.

Accelerated Programmes

- The programme graduations was scheduled for February 2023

Programme	Nominees	Start date	End date
Leap Virtual	7	08 Aug 22	9/10 Feb 23
Transform Virtual	5	23 May 22	14/15 Feb 23
Sustain	1	05 Sep 22	23/24 Feb 23

People Manager Session

Focus on humanising leaders by making them more accessible and relatable, as well as developing internal experts.

Audience

All people managers

Sessions conducted

People Manager standards on:

- Understanding Our People Policies and Procedures and your role in implementation - 244
- Execution – The 4 Disciplines of Execution (4DX) - 286
- Fireside Chat on Collaborative Productivity 274
- Sales Coaching for productivity ongoing.

Thought Leadership and Soul food Sessions

- Unlocking people's potential - 234
- My Leadership Story- 233
- The Future of Leadership – 16 Nov
- Fearless Leadership- 250
- Leading with Resilience–about 1 700
- Utilising our Strengths – more than 1 506
- Defying Gravity – about 1 600.

Other Learning Program

Sales Reskilling Programmes – Aimed at converting non-sales colleagues to exceptional sales people. Cohort 1 of 21 colleagues was successfully completed, with three of the converts being promoted to higher roles. Cohort 2 to kick off in January 2023.

Graduate Talent Programme - This is a 18-month program that is a rotational and developmental-based experience aimed at acquiring and developing future skills. 15 graduate trainees.

Pre-retirement Programme -This isa five-month programme of two hours per session designed to help colleagues who are about to retire how to manage the transition and prepare well for the next chapter in life. 21 colleagues trained.

IFC SHE Champion Training– The training was on women's market customer value preposition and the life cycle of the woman customer. Colleagues trained were 351 across all regions.

Trade Training – To transform a "banker" to a "businessman" making money for the bank by changing the mindset from loans and overdrafts to providing business solutions).

Exchange Development Programme countries

Grade	Total	South Africa	Zambia	Ghana	Mauritius	Botswana
VP	4	1	1	1	1	
AVP	2	2				
BA4	6	6				
BA3	7	5		1		1
Total	**19**					

Platform	Content	Colleagues enrolled
Udemy	Market place for learning with over 100 000 learning courses.	**1 120**
Absa Digital Campus	This is a learning and development platform designed to evaluate learners' current level of competency and automatically package relevant learning.	**2 125**
LinkedIn learning	This is an on-demand learning solution designed to help you gain future skills with more than 8,500 courses covering business, creative and technology topics accessible anywhere, anytime.	**324**
Virtual-Microsoft Teams	Art of execution	**1 600**
	Emotional Intelligence - EQ Sessions: People Managers	**540**
	EQ Sessions: All-colleague sessions	**1 900**
KBA SFI	Sustainable Finance Initiative modules are designed to enable financiers to create long-term value for the economy, society and environment. (Available from KBA website and free for bankers)	**1 981**
UN Global Compact Academy	The academy contains several sustainability topics targeting to achieve the 2030 Agenda for sustainable development. (Available from UN Global Compact website and free for Absa colleagues)	**44**

Attracting and retaining talent

Amid what has been called the great resignation, a post-pandemic trend in North America and Europe where employees are leaving employment to seek higher pay, greater fulfilment and balance, we remain committed to attracting and retaining high-potential individuals and ensuring that our work is meaningful and creates value for employees. This is central to our EVP and supported by our human capital policies and procedures.

As part of our endeavour to attract and retain talent, we have created a workplace that is vibrant, fun and a great place to work, encouraging our colleagues to learn, explore and innovate. Additionally, our diverse workplace enables synergistic and complementary work interactions for colleagues with diversity in thoughts, skills, talents and experiences that enrich their work. Importantly, we invest in the development of talent to enable the delivery of high-quality results and personal growth.

Graduate Talent Programme

Aligned with our Talent Strategy, we rolled out the Graduate Talent Programme. The programme injects freshness and enhances our talent management as we identify and place smart, innovative and ingenious graduates that are equipped to take up strategic roles across the business spanning data, digital transformation, technology, business development and risk management, among others. The world of work is rapidly evolving, and the graduate programme accords a competitive advantage to the organisation by diversifying the workforce and injecting highly talented Gen Z individuals with innovation and critical skills that are vital for business growth and transformation. Our 10X aspiration requires an unhindered mindset, skillset and appreciation of emerging customer behaviours and needs. The programme is an 18-month rotational and development journey that targeted candidates who graduated in 2020 to 2021. In April 2022, we welcomed 15 graduates into the Bank to start this exciting developmental journey.

Diversity and Inclusion (D&I)

A key pillar of Absa's culture is D&I, which ensures that our organisation represents a broad range of colleagues and customers across the market. We strive to create an inclusive work environment that attracts, embraces and fosters diverse talents, skills and perspectives. Absa's leadership has been at the forefront in building a more inclusive working environment, which encourages all colleagues to make their voices heard and contribute ideas to craft possibilities for both customers and colleagues. Our core areas of focus in this regard are:

- Challenging our leaders to reflect on their behaviours that enable psychological safety where diverse skills and ideas can thrive.
- Support the development of female professionals across all grades and increase the number of women in senior executive roles.
- Driving fair performance management processes and fair renumeration.
- Using data on D&I to empower people managers in decision-making.
- Creating a cohesive working environment for a multi-generational workforce.

Absa's Women Network Forum is a key initiative that aims to attain improved diversity and inclusion results for women through better representation of women leaders at senior management levels and advocacy for quality pro-women policies, products and programmes. The Forum has three key priorities:

- Drive gender diversity by supporting the leadership and career development of all women in the bank with a view to increasing the number of women in senior management.
- Focus on leadership development for female colleagues across all levels, but especially in middle management.
- Creating a suitable environment that is empowering to all women, considering their unique needs.

In 2022, achievements made by the Forum in pursuing the women development agenda comprised several initiatives, including:

- 700 colleagues participated in Break the Bias Dialogue with Brenda Mbathi, President of GE East Africa
- Sponsored 10 delegates to Activate Women In Leadership Africa Summit, themed "Leading with Adaptability, Agility and Authenticity".
- Trained 351 colleagues on Gender Diversity, a training conducted by IFC
- Launched 253 ladies on mentorship undertaken by 47 female colleagues in senior management.
- Sponsored three colleagues to join the Women on Boards training by FKE
- Facilitated a menopause conversation to support colleagues in October 2022
- Title sponsors in the 100 Women in Finance launch in Kenya, including ringing of the bell at NSE with the CBK Governor.
- Sent 15 delegates to the Man Cave Forum in November
- Graduated 206 mentees in the She Mentorship Circles supported by 37 in-house mentors.

100 Women in Finance (100WF)

In 2022, we were the title sponsor of the 100 Women in Finance launch in Kenya. 100 Women was founded in 2001 to bring together 100 senior female investment professionals to better leverage their collective relationships and enhance communication within the alternatives industry. The non-profit organisation has identified three areas where its collaborative efforts could effect change in the industry and beyond: Peer Engagement, Philanthropy and Education.

A guiding principle of 100WF is Vision 30/40 whose goal is to enable women to occupy 30% of senior investment roles and executive committee positions by 2040. To achieve a goal such as Vision 30/40 will require reaching more women in finance and advocacy for a new generation of industry leadership. Each programme offered under this initiative centres around promoting diversity of thought, raising visibility and empowering women at each career stage to find their personal path to success through connections and resources, providing opportunities for networking, career advancement and increased industry presence. We believe that expanding the pipeline of women entering finance, banking, technology and business, higher education will ultimately increase female representation in leadership roles in these sectors. 100WF reaches, inspires and supports pre-career women who are in the finance industry's leadership pipeline by:

- Encouraging female students to look favourably at careers in finance and investments
- Creating educational opportunities and access points for them to join the industry
- Presenting greater visibility of female role models
- Working with external organisations strategically aligned with our mission

Revamping recognition

Celebrating the achievements of our colleagues is a key aspect of our work culture. We value the contribution made by employees to create value, live up to our corporate purpose, and pursue Absa's strategic intent. In turn, we seek to recognise exceptional performance among our colleagues. One of the key enhancements that we made in 2022 was to consider how we can recognise employees on an ongoing basis.

External recognition

Top Employer Award

In 2022, we were recognised as a Top Employer in Kenya and Africa. This prestigious global recognition awarded by the Top Employers Institute reflects our commitment to all employees in creating a great place to work. The certification is a testament that 'Our People are our Strength', and that the contribution of every colleague matters. Established 30 years ago, the Top Employers Institute has certified 1 691 organisations in 120 countries that have positively impacted the lives of seven million employees globally, enabling organisations to assess and improve the workplace environment with a view to creating exceptional places to work across the globe.

Other awards received by colleagues in the year include:

- CIO of the Year award 2022 – Annual dx100 Symposium and Awards
- CDO of the Year Award 2022– Connected Banking East Africa
- 2022 Data Activators Award, Top 100 Data Leader

Looking forward

We have set out four key priorities in our new horizon to enable colleagues to contribute to our purpose, create stakeholder value, and enhance their career aspirations as they operate in a fun and vibrant workplace. These four priorities are:

- Foster a culture of high performance
- Enhance diversity, equity and inclusion
- Enhance employee value proposition
- Fostering innovation and joint problem-solving through squads and sprints

Intellectual and manufactured capital

Intellectual capital refers to our intellectual property and organisational capital, including tacit knowledge, systems, procedures and protocols. We consider our ability as an organisation to innovate to meet pressing future needs.

Our IT infrastructure is the most material part of our manufactured capital, taking our strategic direction and evolving business model into consideration. While our buildings and other manufactured capital provide necessary inputs, the detail of these aspects is not captured here, as it is an immaterial portion of our total manufactured capital investment.

Related material matters

- Technology
- Protecting customers

Strategic response

- A digitally powered business
- A relevant brand driving a sustainable future

Contributing to SDGs

SDG 4 SDG 8 SDG 10

Technology

Our ambition is to radically modernise our banking platforms and digital capabilities by investing in new technologies towards becoming the most digitally enabled bank in Kenya. Technology developments enrich our clients' experiences while enabling our colleagues to deliver value efficiently. Further, our investments in technology supports the enhancement of digital offerings and channels in a cost-effective manner, reducing our cost base while expanding our customer reach.

Resonating with our strategic intent, we developed a cloud-adoption strategy that focuses on four priority pillars:

- Digital first
- Operational excellence
- Always secure and risk assurance
- Optimal operating model.

Our technology journey continued to evolve as we modernised our core banking systems, providing leverage for improvements in digital offerings, product innovation and customer experience. Through several projects, we continue to strengthen our technology as a key enabler for customers and employees, while ensuring high levels of cyber security and improved cyber resilience.

Our technology transformations, in 2022, positioned the Bank to deliver faster services. We expanded offerings, ensured consistency in system uptime, promoted supply chain financing and enhanced data and hardware protection and hardware protection. Crucially, it included architectural simplification through the adoption of a microservice-based middleware that has simplified the integration of new products and services to the core banking platform, which will enable faster time to market for products and improved service resilience.

Initiatives for 2022

Software-defined Wide Area Network (SD-WAN): Allows intelligent, secure and optimal connection to our network infrastructure.

Implementation of a **Corporate Application Interface Gateway** to accelerate API-based partnerships.

Fully Cloud-based Aggregator Solution: Integrates Mobile Network Operators (MNOs) and other partners to the Bank, enabling Business-to-Customer (B2C) and Business-to-Business (B2B) transactions.

Collocation Adoption: Migration of Disaster Recovery Data Centre to a third party that offers data centre as a service.

Cash Deposit Machines: provides 24/7 availability of cash deposit services with a two-minute turnaround time.

Online Account Opening: enables opening of accounts conveniently through our digital channels.

FMCG digital financing: Aggregates FMCG retailers and distributors and offers them credit as a service to help resolve day-to-day cashflow challenges.

Our performance

Cutting-edge enablement

With most employees engaged in hybrid work, a key imperative is the need for best-in-class technological connectivity. Colleagues working remotely require ease to work and meet online and remotely at all times. Systems reliability, stability and availability is therefore a critical enabler for employee performance and the creation of value for customers. In addition, customer-facing employees require certainty that customers are able to transact seamlessly and often recommend improvements in features and capabilities on digital channels based on customer feedback.

In response, in 2022, we moved digital channels to new technological environments and adopted new architectures for integration between channels and the core banking system. This has laid the foundation for resilience and improved stability. To improve staff productivity as the Bank adopted a hybrid way of working, we overhauled the legacy network at the headquarters with a new network that has greater capacity and throughput, realising a six-fold improvement in speeds.

As earlier indicated, we continued to offer employee opportunities to develop their skills with emphasis on future skills, including technology and digital skills.

Exceptional digital experience

We seek to provide customers with a seamless digital experience by ensuring that our systems are always on. Core banking and digital channels availability and ATM uptime were above target as we sought to ensure that support services are always available. We recognise that, beyond availability, customers are also concerned with the ease of use of technology, convenience, as well as improved functionalities and capabilities based on their evolving needs and requirements.

We have responded by incorporating new transaction features and capabilities in our digital offerings. Every week, we conduct customer Net Promoter Score (NPS) surveys that enable us to receive real-time customer feedback, which we incorporate into our continuous improvement programme. Cloud adoption avails cutting-edge technology to the Bank, improving on critical and strategic metrices, including capacity on demand and service resilience. It has also orchestrated infrastructure management and enhanced security and data protection.

A key delivery in the year was the in-house aggregator solution that integrates the Bank to mobile network providers and other parties. This solution enables on-demand scalability, which is a critical capability to facilitate today's increasingly dynamic bank-to-mobile wallet, bank-to-business till and bill transactions. We also launched online account onboarding and provided new features that enable clear transaction narratives on customer-to-business and business-to-customer messages, aiding customer identification of depositors and transaction reference numbers, respectively.

Service providers and partners

Our service providers and partners are a major pillar in the delivery of the technology strategy by providing bespoke skills and capabilities. We work with a large variety of providers and partners, including Fintechs, technology companies, MNOs and other corporates.

A key need for our service providers is information that enables them to provide the required services in the scope and manner expected and support when issues arise and require resolution. In response, we have undertaken an automation project to create a procurement portal for providers. Through this portal, providers are able to manage their engagement with the Bank and resolve any issues efficiently. In 2022, we issued approximately 30 requests for proposals through the portal.

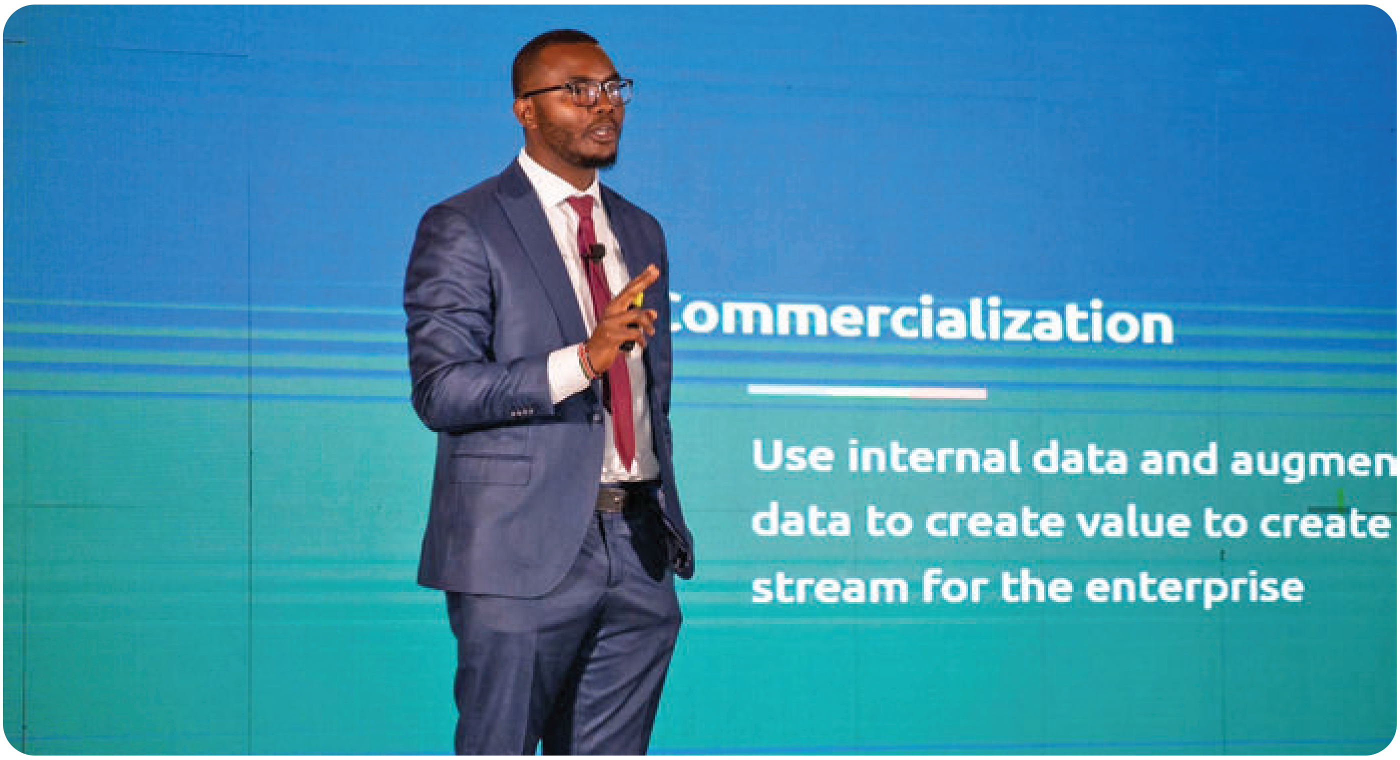
We implemented a Corporate Application Interface Gateway to accelerate API-based partnerships. This Gateway enables partnerships between the Bank and other service providers who would like to extend banking services to their niche clientele. Strategic partnership with Fintechs to provide services within their ecosystems in a win-win model that enables the creation of shared value was a focus in the year. These clients benefit from our complementary offerings that are beneficial to both the Fintech and its clients while giving us access to additional customers. We engaged several Fintechs from various fields such as distribution, supply chain, retailing and warehousing.

Improved capabilities and function consolidation

We have increased our technology capabilities by onboarding and upskilling cross-industry talent and internal staff respectively. All IT operations are now consolidated under one vertical, providing a one-stop centre for all technology issues and aspects and resulting in faster resolution and greater coherence in the management of technology facets. A dedicated digital solutions team was also created to improve liaison between the technology function and other business units on their initiatives.

Leveraging data

We manage and deploy our data assets to leverage our strategic platforms, empowering our businesses to deliver new levels of customer growth, efficiencies, risk management and business insights.



Data in customer value creation: We are transforming the way in which we deliver value to customers by ensuring that our propositions are data-driven using advanced analytics. This means that we are able to anticipate and proactively engage with customers on value-adding propositions that we can offer them before they approach us. This also empowers our relationship teams with the information that they require to solution customers, allowing for greater efficiency and focused interventions.

Data automation for increased capacity: The Bank changed its previous warehousing platform to a more open-source technology called Hadoop, in tandem with the latest technology in the use of data. Hadoop is a distributed computing system that allows for storage of different types of data, including record data, email data and voice data, meaning that any type of structure and instruction data can now be stored by the Bank. We are the only bank in the country that has this expansive set of technology in use with regard to data.

Data literacy enhancement: We have a clear campaign to ensure that colleagues have the best data IQ in the market. We have deployed different courses in data with employees covering more than 5 000 hours of training, with 71% of the hours being used in data and technology training. This is helping colleagues understand what data can do for them and helping them embrace the use of data for strategy, decision-making and customer retention.

Data governance: We have a proper control environment guided by the Enterprise Risk Management Framework (ERMF) and built-in controls based on the Risk Data Aggregation and Risk Reporting Framework (RDARR), which is now fully embedded across the Bank. This underpins the way in which data for reporting and decision-making is aggregated from different sources. To support the reporting requirement, we maintain an enterprise-wide data architecture which ensures that there is integrity on our overall data architecture for any new initiative by the Bank

Data in fraud prevention: We continue to leverage advanced analytics and machine learning to proactively identify and prevent fraud using automated systems. This reduces the human element and provides diverse insights required to keep abreast of fraud trends.

Brand

Our brand is one of the most important assets that we have. 2022 has been a time to redefine how our brand shows up in society and how our stakeholders experience Absa. The challenge was to give meaning to Absa as a locally relevant brand that connects deeply with Kenyans at their passion points. So, we made a strategic decision to invest in athletics as our flagship brand property because nothing says Kenya louder than athletics. These efforts culminated in our sponsorship of the Absa Kip Keino Classics in 2021 and 2022, bringing global athletic greats such as Shelly-Ann Fraser-Pryce, Trayvon Bromell and Justin Gatlin together with our Kenyan stars to compete on home soil.

This is in addition to our golf sponsorship in the Magical Kenya Open presented by Absa, which put our brand in over 400 million homes worldwide through international broadcast. This year, in just under three months, we had two presidential events that not only elevated the stature of our brand, but also played the patriotic duty of putting Kenya on the global map.

Our brand-building efforts are yielding success and we are encouraged by the progress that we have made. In just over two years, we have grown our brand awareness from 28% at launch to 92% at the end of 2021. Through our communications and proactive stakeholder engagements, independent research shows that we are now the most reputable brand in the Kenyan financial sector. Absa was also recently ranked the number one transformative corporate brand in Kenya. These awards underscore our continuing efforts towards making Absa stand tall.

Colleagues as brand ambassadors

In all the campaigns launched, we continued with our Colleagues First approach, where our colleagues become the first point of contact with our new campaigns or product launches before the same can be rolled out externally. For colleagues, we also conducted various information and learning sessions, strategy and business discussions, fit place to work activations, as well as reward and recognition events.

Communications and stakeholder engagement

Our communications function remains an anchor support base for all our business propositions and campaigns. The function prioritised thought leadership opportunities throughout the year, profiling our Role in Society credentials as well as proactive stakeholder engagements with the media, industry bodies, government officials, etc.

Brand performance

Our brand-building efforts are geared towards growing relevance and consideration to further cement the Absa brand. We set a number of ambitious targets including

- Brand awareness: 92%
- Consideration Score: from 27% - 41%
- Reputation: Number 1 in the market - Most reputable financial service brand in Kenya.

Our brand awareness score has improved from 28% at the onset of brand change to 92%.

Our ambition is to execute strategic marketing and communications initiatives that will accelerate growth in our brand reputation as the pull factor for customers, colleagues and other stakeholders in order to grow our market share.

Social and relationship capital

Sound relationships with our stakeholders are vital to protect against value erosion and support sustainable value creation and preservation. Social and relationship capital refers to the relationships that form the lifeblood of our business. This includes the institutions and relationships within and between our communities, stakeholder groups and other networks. This section outlines our relationships with the investor community, our customers and society at large

Related material matters

- Protecting customers
- Business in society

Strategic response

- A relevant brand driving a sustainable future
- A modern-day consumer financial services business

Contributing to SDGs

SDG 4 SDG 8 SDG 10 SDG 16

Customers

Our focus with customers is to provide relevant and innovative products and services while offering convenience in access and ease of use. Customers, in return, provide revenues and deposits that we are able to lend and invest.

Enhancing customer experience

Treating Customers Fairly is an outcomes-based approach anchored on our conduct risk framework and designed to ensure that we deliver specific, clearly set-out fairness outcomes for our customers, while the Net Promoter Score measures the willingness of customers to recommend our products and services to others. Our Customer Experience scores are tracking positively, supported by investments in service standards and process improvements.

Customer Experience (CX) Metrics	2021	2022
Retail Banking		
Composite score	63.9 %	**69.1%**
CX index (performance and satisfaction)	83 %	**86%**
Net Promoter Score (NPS)	33.3	**41%**
Treating Customers Fairly	86.9 %	**86.4%**
Business Banking		
Composite score	63.4 %	**60.4%**
CX index (performance and satisfaction)	80.3 %	**82.7%**
Net Promoter Score (NPS)	31.2	**23.3%**
Treating Customers Fairly	87.8 %	**94.4%**

Successful deployment of MPESA-to-bank customers - SMS alerts to improve digital experience

Launch of QR code ATM cash withdrawal

Launch of Timiza cash withdrawal via Absa ATMs

Launch of Unit Trust investment product

Revamped our Prestige banking proposition with new service models, professional propositions and new benefits (retrenchment cover)

Launch of offshore solution for high-net-worth clients

Enhanced our loan proposition to increase customers' access to credit using both tangible and intangible assets (such as logbooks, government bonds and listed shares) as collateral

Launch of digital savings product

Launch of digital onboarding solution for personal customers

Launch of Absa Visa Send Money for credit and debit cards with capability to send up to Shs 999 999 to individuals and businesses using a QR code across the Visa network in over 100 countries

Launch of Affordable Housing mortgages through partnership with the Kenya Mortgage Refinance Company (KMRC) in support of the government's aim to supply affordable homes through the Affordable Housing Programme (AHP)

We continue to improve our customer value propositions through enhancements to our diverse delivery channels and launching of new products. Our extensive investments in technology are primarily aimed at improving customer experience through our digital channels and customer-facing services. We have sought to create value and convenience for customers through new products and services, upgrades in technology, tailored value propositions for customer segments, increased system stability and uptime, digitisation of customer processes, and proactive engagements with customers.

Support to SMEs

Our ecosystem banking model continued to expand during the year with new Corporates being signed up on the programme. We have signed MOUs with 20 corporate clients as part of our Enterprise Supply Development (ESD) programme, all aimed at supporting SMEs in their value chains with access to working capital facilities. During the year, we advanced over Shs 3.5bn to SMEs under this initiative, and we are working on a digital solution to drive this further. Under our SME Business Club, we held several webinars providing SMEs with access to information. These training sessions were facilitated by subject matter experts and covered financial management for SMEs, tax issues, succession planning, managing responsibilities as an entrepreneur, business resilience, digital transformation, and personal and business branding.

Customer campaigns

RBB Campaign: We launched the Pamoja Tunawiri campaign targeting Retail and Business Banking segments, and drove initiatives such as digital onboarding, and adopted an always-on data-led marketing approach to drive campaigns such as mortgages.

BB Campaign: For our Business Banking customers, we continued to drive the Wezesha Biashara campaign, which positions the Bank as a growth partner for our SME customers through the provision of finances, capacity building and networking, among others. We also launched several sector engagements and partnership activations, such as Women in Business, SME Tours, Agribusiness, etc.

CIB Campaign: We enhanced the CIB credentials campaign as well as the Absa Access campaign. The aim was to showcase our CIB capabilities through customer testimonial stories. We also rolled out the Home of FX campaign to showcase our forex solutions. The CIB campaign has so far delivered a digital reach in excess of 80%, above the line (ATL) at 27%, PR value in excess of Shs 6.4 million and engagement KPIs with over 67 000 click through across social media and YouTube.

Wezesha Biashara

Our flagship marketing campaign under the banner of Wezesha Biashara went into overdrive during the year, coming from a slowdown occasioned by the COVID-19 pandemic. In partnership with the Kenya National Chamber of Commerce and Industry (KNCCI), we held various tours to engage SMEs in Nairobi, Nyanza, Western, Rift and Coast regions. During the tours led by our Interim CEO, we engaged with the County Governors to discuss various opportunities available to support SMEs scale up their businesses.

We conducted localised market storms across major urban centres in the country, promoting our SME proposition. Additionally, we partnered with various religious organisations, players in the education sector and professional associations, where we conducted forums to support their members access business-related training, financing and networking opportunities during the year.

Key highlights under Wezesha include:

- Use of various regional radio stations that increased reach to mass audiences
- Maximised use of branch-led activations in the various regions
- Leveraged partnerships with business associations and communities
- Various WIB engagements with our partners, e.g., KNCCI – Nairobi Chapter covering five regions in Nairobi reaching over 750 women in business
- Impacted over 35 000 entrepreneurs through the market storms and activities

Women in Business

In 2021, we launched our premiere Absa SHE Business Account to provide financial and non-financial solutions to women entrepreneurs, especially those in the SME sector. Through this solution, we committed to positively impact over one million women business owners over the next five years, providing them with opportunities to scale their businesses. During the year, our activities and engagements were geared towards driving the proposition's four key pillars, namely access to markets, access to information, access to mentorship and coaching, and access to affordable financing. Since it's launch in May 2021, we have advanced over Shs 4bn to 1 700 women entrepreneurs in the form of asset finance, working capital, business mortgages and business expansion facilities. Further, through our various engagements across the country, we have reached over 19 000 women in business.

In the course of the year, the Absa SHE Academy was recognised as the best Impact Investing Initiative, at the 5th Edition of the National Diversity and Inclusion Awards. This category celebrates programmes that aim to revolutionise access to funding for enterprises led or owned by women, youth and people living with disabilities with a broader vision of improving economic opportunities and securing a sustainable future for their well-being. In addition, the SHE Business proposition attained second place for empowerment of women in the community in East Africa at the Accenture Gender Mainstreaming Awards.

To advance our access to the mentorship and coaching pillar, we launched two key programmes with Unilever and GIZ as partners, to train and mentor women in business, targeting a total of 6 500. We held a successful graduation for our initial two cohorts under the GIZ five-month training and mentorship programme. To support women to access markets, we continued to link them with our key corporates as suppliers under the ESD programme. In October 2022, in partnership with the ITC SheTrades Programme, we participated in the Fruit Attraction Trade Fair held in Madrid, Spain, to enable women-led businesses trading in fruits and vegetables to access international markets.

Case study:

Pursuing opportunities for women and agripreneurs

The Fruit Attraction Fair is a global marketing event that brings together the best of the world's value chain actors in the fruit industry. This year's event was hosted at IFEMA Madrid and attracted close to one million guests, according to unofficial reports. The exhibitors included leading exporting countries, global logistic companies, input and machinery providers, exporters and upcoming players, especially from developing countries.

The International Trade Centre (ITC) runs a flagship initiative dubbed ITC SheTrades targeting stakeholders across the trade and business ecosystem to create the right conditions and capacities for every woman to realise her full economic potential and is decentralised through in-country hubs. Absa Bank Kenya is the current host of the hub in Kenya, given that it resonates very well with the Bank's target to impact over one million women entrepreneurs over the next five years with a proposition that offers financial and non-financial solutions to accelerate business growth.

Absa participated in the trade fair to promote access to markets for women-led agribusiness enterprises.

One of the key takeaways for the Absa team was that it is not enough for banks to provide liquidity to the SME space when it comes to international trade. It is equally important to facilitate access to relevant and useful information and markets. Though this may be achieved through other entities such as business lobby groups and associations, the role of financial institutions in building confidence and trust cannot be underrated. The information asymmetry between exporters and agripreneurs is a hindrance to international trade and could easily be termed a non-tariff barrier to trade.

Additionally, for Kenyan agriprenuers to scale up their businesses, they could benefit from coaching and mentorship programmes. Certification processes and how to package and pitch their solution to international markets were identified as key, glaring developmental areas compared to similar entities from competing countries. Agri-SMEs can greatly benefit from the mentorship and networking sessions on thematic areas. Value addition will remain a key differentiator in the market space, with customer preferences shifting to dried fruits.

In conclusion, the agriculture loan and investment portfolios are currently disproportionately low in relation to the agricultural sector's contribution to Gross Domestic Product (GDP). Banks, microfinance institutions and institutional investors have traditionally provided the sector with very limited resources. Agriculture accounts for 3.3% of gross loans offered by local banks, amounting to nearly Shs100.2 billion, according to the Central Bank of Kenya's 2021 Supervision Annual Report. A closer partnership between the sector players and the banks will be critical to increasing credit flow in this space.

Protecting customers

Fraud

Key focus areas for 2022

Improved fraud detection and response through embracing of data analytics, machine learning and new fraud systems, as well as upgrading some existing systems.

Improved fraud prevention through enhanced and elaborate customer and colleague fraud sensitization programme.

Sustained a collaborative fraud management framework that represents the industry stakeholders through scheduled forums.

Elaborate plan to track and close identified gaps to avoid repeat cases as well as proactive risk assessments to identify and remediate gaps before materialising.

Fraud remains a major challenge for the financial sector in Kenya. In line with the trends observed in 2021, fraud continues to evolve rapidly and match the increased preference by customers for digital propositions. Card-not-present remains the most prevalent form of fraud, followed by cheque fraud and stupefying. Globally, we have noted a trend of BIN attacks, which impact multiple cards at the same time resulting in breaches on customer cards.

We have strong controls in place and remain one of the most rigorous financial institutions in the market. In 2022, we continued with customer and employee awareness through messaging. 26 SMS alerts were released to customers, and six social media fraud awareness campaigns were conducted.

1 503 colleagues attended fraud training in 2022 as we supported their capacity to respond to fraud. Training covers several aspects, including fraud risk management, prevention, detection, response and trends. In total, 21 training sessions were conducted. Colleagues are also encouraged to report any unethical behaviour through the whistleblowing toll-free line; 0800 720 012 (Kenya), and email address; protect@tip-offs.com.

Our performance

We noted a decrease in gross fraud and an improvement in recoveries, showcasing the robustness of our proactive fraud prevention measures.

- Gross loss YTD Shs 107.7 million
- Recoveries Shs 59.1 million
- Net loss Shs 48.6 million
- Frustrated fraud Shs 428.5 million
- 21 fraud training sessions held for colleagues in 2022
- 1 503 colleagues completed annual fraud training
- 26 fraud sensitisation SMS alerts sent to customers
- Six social media campaigns held
- Participated in fraud awareness campaigns spearheaded by the Kenya Bankers Association

> ***"Dear customer, this week marks the commemoration of the International Fraud Awareness week. Absa Bank staff does not call, SMS or email you to request your banking login details, such as your mobile banking PIN, username or passwords. Do not reveal these details to anyone. For queries call 0722130120."***

Society

Our interdependent relationship with the society in which we operate is a key pillar for success and an essential ingredient in our social license. Our force for good agenda indicates our intention to deliberately create value for society through our business model and social investments. It also reflects on our purpose to bring possibilities to life for social stakeholders.

In 2020, we issued our sustainability commitments that aim to create shared value, with a target of 2025. The specific targets are shown in the table below and provide an update on our performance:

No.	Commitment	Goal or target	Target date	Our SDGs impacted
1	Diversification of our portfolio and increase our funding and capital allocation for initiatives that support: 1. Renewable and clean energy 2. Industries, innovation and infrastructure 3. Financially excluded groups 4. Sustainable cities and communities 5. Responsible consumption and production 6. Value chains	Increase portfolio and capital allocation by at least 10%	2025	**7, 8, 9, 10, 11, 12**
2	Increase diversity in the supply chain, focusing on women, youth and persons with disabilities (PWD)	Achieve 30% diversity	2025	**8, 10**
3	Investing in the future of the youth through skills development with our ReadytoWork programme	Train one million youth	2025	**4, 8, 10**
4	Become a net-zero carbon footprint company by 2040	Achieve net zero	2040	**12**
5	Increase biodiversity and encourage environmental responsibility through planting trees	Plant 10 million trees	2025	**15, 8**
6	Empower our suppliers and create awareness on corporate sustainability and responsible business practices	Train all suppliers on sustainable business	2021	**8, 16**
7	Direct and indirect economic contribution to the Kenyan economy through our current and future funding	% of contribution to economy	Continuous	**8**
8	Become one of the best places to work in Kenya	Top 10	2025	**8**
9	Investing in training and upskilling the future skills and competencies of our employees	Train all employees on at least one future skill	2021	**4, 8, 16**
10	Increase proportion of women within all levels: junior, management and board positions: Gender parity	Attain 50% across all levels	2025	**10**
11	Assess and manage our indirect environmental and social impacts	Reduce and mitigate negative impact	2021	**8, 12**
12	Adherence to governance and control policies internally and through the supply chain	Embed Environmental, Social, Governance (ESG) across all our policies and frameworks	Continuous	**16**
13	Continued partnerships for the goals	Number of partners and value created for society and business	Continuous	**17, 8**

We have continued to pursue these commitments through various environmental and social initiatives. We are also active in our citizenship programme, which guides our social investment initiatives, with a marked increase in colleague participation and volunteerism noted in 2022.

A key aspect of our commitments is to use our core competence in finance to influence sustainable outcomes. In last year's report, we noted that a key constraint for Absa was the lack of specific skills that would enable the development and management of sustainable finance-focused products. In response to this challenge, 200 colleagues were able to complete a sustainable finance course offered by the Kenya Bankers Association. This marks an important first step in the process of entrenching sustainable finance products in line with our focus areas that were determined in the prior year.

Diversity, equity and inclusion

We continue to pursue our diversity agenda, which seeks to empower marginalised groups so that they can engage effectively in livelihood initiatives and pursue their aspirations. Given the demographics of Kenya, we have identified women, youth and persons with disabilities (PwDs) (differently abled persons) as our core constituency for this initiative.

Persons with disabilities

We have crafted a roadmap and business case for persons living with disabilities (PwDs) – differently abled persons - in our society in readiness for execution in 2023. This will encompass:

- **Know your customer (KYC)**- Mapping of staff, clients and stakeholders with disabilities.
- **Access**- Enhancing physical access, creation of strategy and policies for PwDs.
- **E-banking**- Ensuring accessibility of all the Bank's digital channels.
- **Support**- Training and capacity building for PwDs.
- **Information access**- Creating appropriate documents and signage.

Wazo Challenge – youth, women and PwDs

In realising SDG 9, we committed to building a resilient infrastructure for Kenya that promotes inclusive growth and fosters innovation among business startups run by the youth, women and PwDs. In this regard, we are managing 'Wazo Challenge', a programme that is geared towards youth business mentorships.

Wazo Challenge targets 18- to 30-year-old Kenyans who are building a technology-based venture to solve social challenges through business. The programme is a four-week venture development bootcamp, culminating in an investor demo day based on either:

- Financial Services
- Healthcare
- Agriculture
- Sustainability
- Retail
- Supply Chain

At year close, 10 youth startups have gone through the programme.

SHE (See Her Empowered) Proposition

The SHE proposition supports female entrepreneurs from various sectors in Kenya to overcome some of the most prevalent challenges of today's women in the business world. In 2022, 10 703 women entrepreneurs were impacted across several events, in partnership with GIZ, Yunus Environmental Hub, Daughters of Zion Conference and Kangemi Business Community.

In addition, 350 colleagues across the network, including branch managers, bankers, relationship managers and assistant relationship managers, were trained on gender intelligence to support the engagements under the SHE proposition. The training was held over a period of two weeks covering various topics such as gender intelligence and unconscious bias, the woman customer journey, retention and referrals among others.

Inclusive Financing

We have proactively sought funding partners to support our inclusive financing agenda, enabling businesses that would need specific consideration beyond the normal banking requirements to access finance. In 2022, we accessed a EUR 200 000 technical support grant to support women-led businesses in partnership with GIZ. Further, we accessed USD 200 000 to empower youth and startups from the African Guarantee Fund.

ReadytoWork

ReadytoWork is our flagship programme that enables young people between the ages of 16 and 35 to find employment or create employment by giving them the skills that will enable them to transition from education to the world of work. The programme is conducted through a free online portal comprising four key models: work, people, money and entrepreneurship skills. Our target is to impact one million youth by 2025.

Working in partnership with Sol Generation, KEPSA and academic institutions, we have reached 231 740 youth.

Computer lab donations

The brand transition resulted in a need to purchase new computers for colleagues. We opted to upcycle our existing computers, by refurbishing and subsequently donating them to needy schools. Our intention is to develop computer labs in these schools, enabling children to access future skills. In addition, we aim to recycle computers as part of a circular economy and contribute to Absa's net-zero agenda. We are working in partnership with Computers for Schools Kenya, a non-profit organisation that aims to provide young people with access to ICT.

We are focused on delivering 70 computer labs, each with 20 computers loaded with software (MS Office 2016, Operating System 2010 and Antivirus). We also provide computer desks and chairs and the required networking. In the case where a school does not have a suitable teacher or tutor, we offer training in partnership with Computer for School. The computers come with a seven-year warranty, thus allaying concerns about their quality. In addition, we have negotiated a special concessionary rate for maintenance.

In 2021, we undertook seven computer labs. By the close of 2022, this number had risen to 43 completed labs. Our target is to complete all 70 labs by the close of 2023.

Employee volunteerism

Our sustainability agenda is spearheaded by colleagues who act as sustainability champions. We have 76 champions distributed across the business. These champions support the sustainability agenda of the Bank, providing awareness and understanding of the concept of sustainability and supporting colleagues to deliver on the Bank's aspiration.

A key role played by colleagues is offering training and mentorship to youth. 200 colleagues have been involved in training young people from schools and universities near their branches.

Tuungane 2X

Absa signed a partnership with Melanin Kapital, an impact investment platform, to provide an investor readiness programme that will see startups in the social impact space access up to Shs 3 million in unsecured lending. The programme targets to reach 600 women-focused startups and will provide value-added services such as financial training, investment-readiness capacity building, structured mentorship, structured networking, and access to finance.

Dubbed Tuungane 2X, the partnership will also seek to engage international, like-minded partners to derisk the credit facilities to the startups, enabling the Bank to offer favourable unsecured loans. To qualify for funding, interested startups will undertake a six-month investment readiness programme.

Education scholarship

This programme was launched in 2017 and seeks to support undergraduate students at the university from needy families, particularly orphans or those from single parent households. The fund provides tuition, accommodation, meals, stationery and a laptop per student, which totals Shs 150 000 per academic year. In addition, the programme has a psychosocial support component that aims to prepare students for university life by covering aspects such as study techniques, navigating university education, exposure to work opportunities and social life. Students covered under the scholarship programme are also able to apply for the Absa ReadytoWork internship programme.

In 2022, we reached 68 students. Cumulatively, we have supported 574 students from all 47 counties.

Sustainable procurement

Sustainable procurement is our go-to approach that aims to use procurement to drive sustainability. We recognise that we have substantive influence on our supply chain and can therefore empower suppliers to observe and promote sustainable business practices. In this regard, we have offered a training programme for all suppliers in partnership with Strathmore University-focusing on sustainability and the Sustainable Development Goals (SDGs). In 2022, 430 suppliers had completed the training programme.

We are also promoting sustainability partnerships with suppliers through a paid internship programme hosted by suppliers. While the supplier provides work experience for the interns, we offer them stipends and training. Suppliers are also able to access financing to meet their business needs through the ESD product. Our ecosystem banking supports these suppliers and offers up to 100% financing in certain cases. We continue to hold supplier forums and engagements so as to better understand their needs and respond appropriately.

Diversification of our supply chain was a priority in 2022. Our target is to achieve 30% diversity by 2025 offering women, youth and PwDs at least 30% of our procurement contracts. This is part of our collaboration with the International Finance Corporation (IFC) under the Sourcing2Equal initiative. As at 2022, our procurement diversity stood at 10.3%, comprised of women (8%), youth (2%) and PwDs (0.3%), up from 6% in 2021.

Our new procurement portal has enhanced our relationship with suppliers by giving them greater control and clarity on their supplier engagements with the Bank. This has improved operational efficiency for both parties since all issues are available and can be resolved on the portal. We are committed to paying suppliers within seven days of receiving their invoices, barring any issues that may require prior resolution before payment. While the system has experienced teething challenges, especially as suppliers learn to use an automated portal, it has enabled improved relations with suppliers and faster resolution of any issues raised.

Natural capital

Natural capital refers to all renewable and non-renewable environmental resources and processes that enable our business activities, thereby supporting our ability to create value in the short, medium and long term. Included in our assessment of our natural capital is our aim to improve the manner in which we consume natural capital over time.

Related material matters

- Business in society
- Green transition

Strategic response

- A relevant brand driving a sustainable future

Contributing to SDGs

SDG 7 SDG 8 SDG 15

Managing our environmental impact

Kenya is a natural resource-based economy anchored on agriculture, the mainstay of livelihoods, and tourism, extractives, forestry and fisheries. Manufacturing and services are also heavily dependent on nature-based sectors, either through value addition, or the provision of facilitative services.

Given this context, the environment plays a significant role in the economic lives of Kenyans and thus impacts our ability to create value. Climate variations and extreme environmental events affect our stakeholders adversely, impacting long-term sustainability.

Climate change is therefore a major challenge facing the Kenyan economy and its developmental objectives, with impacts anticipated to result in a socioeconomic loss of 3-4% of GDP, according to the National Determined Contribution prepared by the government. Although the country contributes less than 0.1% of greenhouse gases (GHGs), it is highly vulnerable to climate variability.

The Climate Change Act of 2016 and the National Climate Change Action Plan (NCCAP) 2018–2022 provide guidance for low-carbon and climate-resilient development. Kenya's priorities as articulated through these and other instruments include adaptation, afforestation and reforestation, landscape restoration, climate-smart agriculture, geothermal and clean energy development, energy efficiency, and drought and flood risk management.

Absa seeks to contribute, through our net-zero commitment, by reducing our carbon footprint as a business and also developing innovative climate finance products to support our clients on their transition journey. As part of this, we have embarked on reducing the carbon footprint of our premises and pursuing green certification, thus improving resource efficiency.

In addition, we are committed to supporting the Kenyan government's initiative to plant 10 million trees across Kenya by 2025, reducing our impact on the environment through lowering our resource use, including water and energy, and partnering with leading initiatives such as the UN Global Compact, The Sustainable Finance Initiative, and Women's Empowerment Principles.

Strategic pillar	Metric	2021 FY Actuals	2022 FY Target	2022 Actuals	2022 Metric measure	Performance summary commentary
Promote Environmental Sustainability	**Energy consumption savings:**	**29% Decrease**	5% decrease	13%	**Shs 13m**	We achieved a 13% decrease in energy consumption in 2022
	Energy consumption savings:	Through our green building ambitions for our facilities, we achieved IFC EDGE certification for five of our premises, in 2022.				
	Reduction (water conservation): Water cost reduction (Shs)	4m	4.5m	Shs 4.6m	-	In 2022, water cost reduction stood at Shs 4.6m due to continued use of tap water purification technology, against a target of Shs 4.5m
	Reduction (waste management): Waste reduction recycled	48%	50%	48%	-	16 sites in Nairobi region were piloted in partnership with a waste collection and recycling company. The company collected a total of 3184 kgs in waste. 44.2% was organic, 30.9% was paper and 17.2% was plastic. They recycled 97.5% of the waste resulting in a 6.264tCO_2 carbon emissions equivalent avoided.

Tree planting

Target	Actual 2022
800 000	303 664

Despite the lack of rainfall events across the country over the months of July to September, we still managed to plant an additional 23 450 mangrove seedlings with communities at the Coastal region of Kenya. This brings the total accounted number of trees as at the end of 2022 to 303 664.

Climate-related risk

We are currently in the process of developing our climate change strategy to address how the Bank will manage climate risk and achieve emission reductions across our operations and within our portfolio. This strategy is being developed in a structured, measurable and transparent manner. It is for this reason that the taskforce on climate-related disclosures (TCFD) was identified as a framework under which Absa's climate disclosures would be moulded.

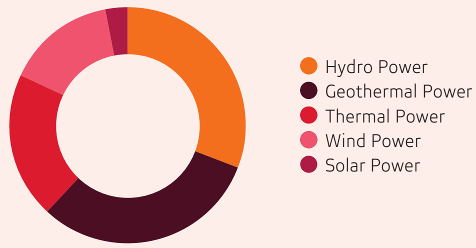
The climate emergency is an urgent global threat that cuts across sectors, industries, societies, and the natural environment. As the world strives to meet the challenge of net-zero emissions targets by 2050, momentum is growing behind efforts to decarbonise economies, industries and infrastructure. Achieving these ambitious targets is fundamental to limiting warming of the planet to 1.5° C above pre-industrial levels by mid-century.

The TCFD is a framework that translates both backward and forward between material climate risk posed to the business as well as the risks posed by business to the environment and society. TCFD disclosures assist investors, insurers, financiers and customers to make informed decisions regarding their interaction with Absa Bank Kenya. The disclosures also assist Absa Bank Kenya to make use of high-quality and decision-useful information to plan, measure and manage their climate adaptation and mitigation strategies.

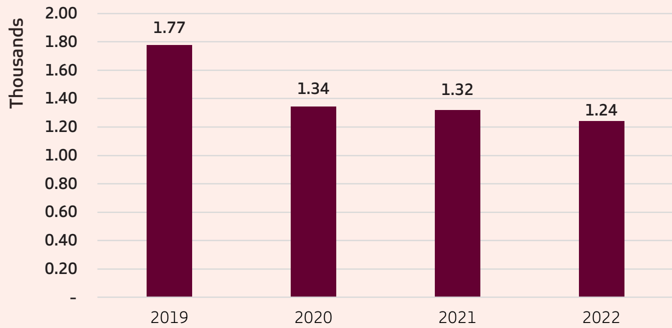
We will issue a separate TCFD report in 2023, which will illustrate how the Bank has addressed governance protocols around climate risk, which risks and opportunities impacting the business strategy and financial planning have been identified, processes to be used by the Bank to identify, assess and manage these related risks, and key metrics and targets set to assess and manage these climate risks and opportunities to the business.

We have been tracking our carbon footprint for the past four years and have noted a decline of total CO_2 equivalent emissions year-on-year. Initial interventions and process optimisations undertaken from 2019 to 2020 resulted in an 26% reduction in emissions. Further reductions have been achieved from 2020 to 2022 as shown below. Scope 2 emissions (direct electricity consumption) represent the major contributor to CO_2 emissions. In calculating emissions, Scope 3 does not include financed emissions and some data elements of Scope 1 are still being developed and this might impact our carbon emissions in future reporting.

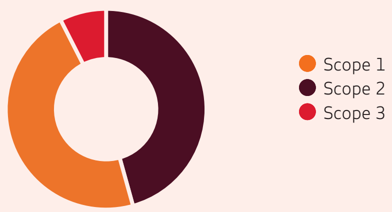
Kenyan Energy Mix 2022 (total 1 026 million kWh)



Absa Bank Kenya total tonnes CO_2 - equivalent releases year on year



Tonnes CO_2-equivalent 2022 broken down by type



In the year, the Bank submitted its Board-approved Climate-related Risk and Opportunity implementation plan to CBK, signaling its commitment to effectively manage climate-related risks and capitalise on opportunities. The Bank ensure alignment with the submitted plan and submitted quarterly status updates to CBK.

The key facets of the implementation plan are:

- Governance
- Strategy
- Risk management
- Oversight
- Reporting and disclosure
- Capacity building


absa
#WeloveAfricanacity

Governance

Our Board of Directors

The Absa Board is committed to continuous improvement in our corporate governance principles, policies and practices, and does so by remaining abreast of evolving regulations and best practices. This is further enhanced through engagement with regulators and industry bodies, and regular feedback from other stakeholders.

Good corporate governance practices are important in creating and sustaining shareholder value and ensuring that behaviour is ethical, legal, transparent and for the benefit of all stakeholders.

Charles Muchene 65
Chairman

Yusuf Omari 48
Executive Director and Interim Managing Director/Chief Execuitive Officer

Dr Laila Macharia 52
Non-executive Director

Patricia Ithau 56
Non-executive Director

Japheth Olende 69
Non-executive Director

Louis Onyango Otieno 58
Non-executive Director

Charles Njenga Murito 46
Non-executive Director

Fulvio Tonelli 62
Non-executive Director

Christine Sabwa 49
Non-executive Director

Kedibone Imathiu 41
Non-executive Director

Loise Gakumo 44
Company Secretary

Charles Muchene
Chairman
Appointed to Board: August 2016
Appointed Chairman: October 2016
Committee membership: CGNRC, SC

External directorships
- AIG Kenya Limited

Previous roles
- Chairman and Non-executive Director, East African Breweries Limited
- Independent Non-executive Director, CfC Stanbic Holdings Limited
- Country Senior Partner and Financial Service Industry Leader, PricewaterhouseCoopers

Qualifications
- Bachelor of Commerce (Hons), University of Nairobi
- Fellow, Institute of Certified Public Accountants of Kenya
- Member, Institute of Certified Public Secretaries of Kenya
- Member, Institute of Directors

Yusuf Omari
Executive Director and Interim MD/CEO
Appointed to Board: June 2009
Committee membership: None

External roles and memberships
- Board Member, University of Nairobi Enterprise Services

Previous roles
- Head of Compliance, Barclays Kenya
- Head of Internal Audit East and West Africa, Barclays Kenya
- Senior Auditor, KPMG
- Board Member, Institute of Certified Public Accountants of Kenya (ICPAK)

Qualifications
- Advanced Management Programme (AMP), Strathmore and IESE Business School
- MBA, Strathmore Business School
- BA Economics, University of Nairobi
- Fellow, Institute of Certified Public Accountants of Kenya
- Certified Internal Auditor

Dr Laila Macharia
Non-executive Director
Appointed to Board: August 2014
Committee Chairperson: CC
Committee membership: SC

External roles and memberships
- Chairman, Africa Digital Media Group
- Chairman, Africa Leadership Initiative - East Africa
- Non-executive Director, Centum Investment Company PLC
- Non-executive Director, Two Rivers Development Limited
- Non-executive Director, Pearl Marina Estates Limited
- Non-executive Director, Vipingo Development PLC
- Member, Centum Foundation

Qualifications
- LLD, Stanford Law School (US)
- LLM, Stanford Law School (US)
- LLM, Cornell Law School (US)
- LLB, Cornell Law School (US)
- BA, University of Oregon (US)
- Member, State Bar of New York (US)
- Member, State Bar of Maryland (US)
- Member, Law Society of Kenya

Patricia Ithau
Non-executive Director
Appointed to Board: March 2016
Board Chairperson: Absa Securities Limited
Committee Chairperson: CGNRC
Committee membership: ARC

External roles and memberships
- CEO and Executive Director - WPP-Scangroup PLC
- Non Executive Director - Jambo Jet Ltd
- Non Executive Director - Vivo Activewear Ltd
- Trustee - Vodafone Foundation UK
- Trustee - M-Pesa Foundation
- Non Executive Director - British Chamber of Commerce and Industry
- Executive Coach - Academy of Executive Coaches
- Genos Certified - Emotional Intelligence Coach

Previous roles
- Regional Director - Stanford Institute for Innovation in Developing Economies - Seed
- Managing Director - L'Oreal East Africa Ltd
- Managing Director - EABL International
- Managing Director - Uganda Breweries Ltd
- Non Executive Director - Trade and Market East Africa Ltd (TMEA)
- Non Executive Director - Kenya Private Sector Alliance (KEPSA)

Qualifications
- Advanced Management Program (AMP) Strathmore University and IESE Business School
- MBA - United States International University
- B.Com (Hons) University of Nairobi
- Certified Emotional Intelligence Practitioner -Genos International
- Accredited Executive Coach - Academy of Executive Coaching

Japheth Olende
Non-executive Director
Appointed to Board: March 2018
Board Chairperson: Absa Bancassurance Intermediary Limited
Subsidiary Board Membership: Absa Asset Management Limited
Committee membership: CC, CGNRC

External roles and memberships
- Board Member, Jumbo Chem Company Limited
- Board Member, Ler Ltd
- Executive Director, OBG Company Limited
- Board Member, Kenya National Bureau of Statistics

Previous roles
- Board Member, Retirement Benefits Authority
- Board Member, AIG Kenya Insurance Company
- Board Member, AIG Uganda Insurance Company
- President, American Chamber of Commerce Kenya Chapter
- Director, Association of Kenya Insurers
- Director, Eagle Eye Laser Centre

Qualifications
- Bachelor of Commerce (Hons), University of Nairobi
- Chartered Insurer, CII London
- Member, Institute of Directors

ARC	Audit and Risk Committee
CC	Credit Committee
CGNRC	Corporate Governance Nominations and Remuneration Committee
SC	Strategy Committee

Louis Onyango Otieno
Non-executive Director
Appointed to Board: March 2018
Board Chairperson: Absa Asset Management Limited
Committee Chairperson: SC
Committee membership: ARC

External roles and memberships
- Board Member, Nation Media Group
- Chairman, Airtel Networks Kenya Ltd

Previous roles
- Director, Corporate Affairs, Microsoft 4Afrika
- General Manager, East and Southern Africa, Microsoft Corporation
- President, American Chamber of Commerce - Kenya
- ICT Advisor to the Presidents of Tanzania, Uganda and Mozambique
- ICT Advisor, COMESA Business Council
- Board Member, Kenya Vision 2030
- Board Member, Red Media Africa (Nigeria)
- Board Member, Enablis East Africa
- Board Member, Fintech International

Qualifications
- MBA, Long Island University
- BSc (Hons) Computer Science, Mercy College

Charles Njenga Murito
Non-executive Director
Appointed to Board: June 2020
Committee membership: CGNRC, CC

External roles and memberships
- Regional Director, sub-Saharan Africa, Government Affairs and Public Policy, Google

Previous roles
- Country Director, Google Kenya
- MD and Chief Commercial Officer of Programming, Wananchi Group (Zuku)
- Director, Business Development, Middle East and Africa, Turner Broadcasting (Europe)
- Senior Manager, Programming Strategy, Turner Broadcasting (Europe)
- Chief of Staff to the President, Warner Bros. Entertainment Inc.
- Brand and Sales Manager, East Africa, MTV Networks Africa
- Sales Executive, Content Sales, Domestic TV Distribution, Warner Bros. Entertainment Ltd

Qualifications
- MBA, Entertainment Business and Finance, Cass Business School, London, 2011
- Bachelor of Science, Psychology and Management, Woodbury University Burbank, California, 2000

Fulvio Tonelli
Non-executive Director
Appointed to Board: October 2020
Committee membership: ARC, CC

External roles and memberships
- Board Member, Absa Group Limited
- Chairman, Independent Regulatory Board of Auditors
- Non-executive Director, the Ethics Institute

Previous roles
- Partner, Chief Risk Officer, Chief Operating Officer, PwC South Africa

Qualifications
- BCom (Honours), The University of Witwatersrand, Johannesburg, SA
- BCom, University of The Witwatersrand, Johannesburg, SA

Christine Sabwa
Non-executive Director
Appointed to Board: February 2022
Committee Chairperson: ARC
Director: Absa Asset Management

External roles and memberships
- Managing Partner, Sabwa & Associates
- Board Member, Britam Life Assurance Kenya Limited
- Board Member, Multi Choice Group Limited
- Board Member, ECLOF Kenya
- Board Member, Shalom Group of Hospitals

Previous roles
- Group CFO, Stanbic Bank Kenya Limited
- COO, Airtel Money Africa
- Board Member, Spire Bank Kenya Limited
- Board Member, Royal Nairobi Golf Club

Qualifications
- BCom (Accounting), University of Nairobi, Kenya
- Certified Public Accountant, Kenya

Kedibone Imathiu
Non-executive Director
Appointed 1 November 2022
Committee membership: ARC

External roles and memberships
- Non-executive Director, AIG South Africa (Pty) Limited
- Non-executive Director, AIG Life (Pty) Limited
- Non-executive Director, The Federated Employees Mutual Assurance Company (Pty) Ltd
- Non-executive Director, Old Mutual Investment Services Nominees (Pty) Ltd
- Non-executive Director, TMS Group Industrial Services (Pty) Ltd
- Non-executive Director, Sekta Group (Pty) Ltd

Previous roles
- Co-Founder and Executive Director : Kazi Capital (Pty) Ltd, South Africa
- Fund Principal: Public Investment Corporation, South Africa
- Corporate Finance Consultant: Investec Limited, South Africa and UK
- Audit Manager and Senior Associate: KPMG, South Africa and USA

Qualifications
- BCom, University of South Africa
- Bachelor of Accounting Science (Honors), University of South Africa
- MBA, Cranfield University, UK
- Chartered Accountant, South Africa
- Chartered Director, South Africa

Loise Wambui Gakumo
Company Secretary
Appointed to the role: March 2019

Previous roles
- Group Company Secretary and Chief Legal Adviser, Centum Investment Company PLC

Qualifications
- MPA, University of Nairobi and Kenya School of Government (In progress)
- LLB, University of Nairobi
- Dip. Law, Kenya School of Law
- Advocate of the High Court of Kenya
- Notary Public
- Commissioner for Oaths
- Practising Certified Public Secretary (Kenya)

Our Country Management Committee

Our management committee is a diverse and experienced management team comprising the Chief Executive Officer, Chief Financial Officer and 9 other members in senior management.

Yusuf Omari
Executive Director and Interim Managing Director/Chief Executive Officer

Moses Musyoka-Muthui
Interim Chief Financial Officer and Chief Strategy Officer

David Hardisty
Executive, Retail and Business Banking

James Agin
Executive, Corporate and Investment Banking

Christine Mwai-Marandu
Director, Country Credit

Anthony Mulisa
Director, East Africa Regional Treasurer

Mumbi Kahindo
Director, People and Culture

Chiera Waithaka
Chief Risk Officer

Ken Kanyarati
Director, Compliance and Legal

Ruth Kamengere
Acting Chief Operating Officer

Sharon Ingari
Chief Internal Auditor

Stella Mambo
Director, Global Markets Sales

Detailed biographies of our Country Management Committee members are available on our website.

Corporate Governance Statement

Introduction

Effective governance is at the core of Absa Bank Kenya PLC's ability to successfully navigate the volatile and complex operating environment. Absa Bank Kenya PLC ("Absa", the "Bank" or the "Company") Board of Directors ("the Board"), which is ultimately responsible for governing the Company, believes that good corporate governance and strategic decision-making are inextricably linked.

The Board is committed to the highest standards of corporate governance, which it believes are critical to achieving the business objectives and maintaining the trust of its investors, customers and other stakeholders.

This statement explains the Company's governance policies and practices and sets out how the Board manages the business for the benefit of shareholders and in promoting long-term shareholder and stakeholder interests. This statement also explains how the Company's corporate governance framework (the "Governance Framework") is structured and implemented in compliance with the requirements of the Companies Act, No. 17 of 2015 (the "Companies Act"), the Capital Markets Act, Chapter 485A, the Capital Markets Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 ("CMA Governance Code"), the Central Bank of Kenya Prudential Guidelines (CBK Prudential Guidelines), the King IV Report on Corporate Governance in South Africa (King IV Code) and corporate governance best practice.

Charles Muchene
Chairman

Governance Framework

To enable Absa to achieve the highest standards of corporate governance, Absa continues to operate within its established Governance Framework. The Governance Framework's core principles are designed to ensure that the Board acts with the utmost integrity, upholds ethical behaviour, balances risk and opportunity when considering strategic plans, delivers sustainable value, has adequate oversight over risk and controls, and promotes good corporate citizenship.

The Board uses the Governance Framework to set and monitor governance and responsibility objectives, identify opportunities for improvement, align activities with the business strategy, and through it, give assurance that Absa is a well-managed company. The Governance Framework also defines the authority that can be delegated by the Board and how it should be delegated.

The Company regularly reviews its Governance Framework and practices to ensure that they are continuously evolving. The Governance Framework was most recently reviewed in August 2022 and approved in October 2022. As part of the review, the Board evaluated the Company's existing policies and considered its expectations for the roles and challenges facing the Board going forward. The review process also involved identifying emerging global governance best practices, legal and regulatory developments, and stakeholders' expectations.

Governance and the role of the Board

The Directors are fully aware of and continue to honour their fiduciary and general duties of reasonable skill, care and diligence to the Company as expounded by the provisions of the Companies Act, the Capital Markets Act, the CMA Governance Code, the CBK Prudential Guidelines, the King IV Code and Common Law.

In 2022, the Company applied and fully complied with the CBK Prudential Guidelines and CMA Governance Code in the prescribed areas such as Board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibility, accountability, risk management and internal controls, as well as transparency and disclosure.

The Board has adopted and continues to adhere to its Board Charter, which clearly sets out the roles and responsibilities of Directors. The Charter also provides guidance on, among other matters, the composition and size of the Board, the Board nomination process, Directors' terms of office, Board succession planning, remuneration, as well as disclosure of interests and conflicts. The Charter is aligned with the Company's Articles of Association and the applicable laws, regulations and guidelines and is reviewed on an annual basis.

The Board

Election and tenure

The Board of Directors is elected by the Company's shareholders. The Board is empowered by the Company's Articles of Association to appoint Directors to fill casual vacancies on the Board. Such Directors hold office until the first annual general meeting (AGM) following their appointment, where they are required to retire from office and seek election by the shareholders.

The Company's Articles of Association require a third of the Non-executive Directors to retire by rotation at every AGM and stand for re-election. The Directors who retire from office by rotation in each year are those who have served the longest term in office since their last election.

The Board Charter further limits the term of office of Non-executive Directors to nine years, unless the Board determines that they should continue in office. It is the Board's policy to retain Non-executive Directors who can apply their wider knowledge and experience to their understanding of Absa, when needed. Where the Board determines that a Non-executive Director should remain in office past the nine-year limit, they are required to retire from office and offer themselves for re-election by shareholders at every subsequent AGM.

The Company requires a Non-executive Director who has reached the age of 70 to retire from the Board in line with the guidance in the CMA Governance Code, unless shareholders at an Annual General Meeting choose to retain a Director who has reached the age of 70. If so retained, such a Director must offer himself/herself for re-election at every subsequent AGM.

Board composition

Eleven Directors served on the Board during 2022, which is within the minimum of five and maximum of 14 prescribed by the Company's Articles of Association. However, as of 31 December 2022, the Board was comprised of 10 Directors (one Executive Director, and nine Non-executive Directors) after one Executive Director resigned from office on 31 October 2022. The detailed profiles of each director, including their resume, background, areas of expertise and the term of their appointment, are highlighted on pages 77-78 of the annual report.

Mr. Jeremy Awori, who was the Chief Executive Officer/Managing Director, resigned from office with effect from 31 October 2022 to pursue a career opportunity outside the Absa Group. Mr Yusuf Omari, who has been the Chief Financial Officer of the Company and an

Executive Director since 2009, was subsequently appointed as the Interim Managing Director with effect from 1 November 2022.

The Board of Directors appointed Ms. Christine Sabwa and Ms. Kedibone Imathiu as independent Non-executive Directors of the Company on 9 February 2022 and 1 November 2022 respectively.

The Board determines its size and composition in line with the requirements of the Articles of Association, its Board Charter, and applicable laws. The principles applied in determining the composition of the Board are that the Chairman must be independent, the majority of its members must be independent Non-executive Directors, and it should consist of individuals with diverse backgrounds, skills, expertise, and experience.

The independence of Directors is assessed based on the requirements of the Board Charter, regulatory guidelines, applicable laws, and best practices and is evaluated annually by the Corporate Governance, Nominations and Remuneration Committee ('Nominations Committee'). The independent Board members are required to attest annually that they remain independent based on a review of the independence factors prescribed by the CBK Prudential Guidelines and the CMA Governance Code. This regular assessment allows the Board to measure its overall level of independence in executing its duties.

The assessment of Directors' independence also examines the Directors' ability to provide an objective challenge to management, to challenge assumptions, beliefs, or viewpoints, and to defend their own beliefs in support of the organisation, to constructively question and debate matters, and to properly interrogate information and responses provided by management.

Based on the annual declarations of independence and the assessment of Directors' independence, the Board is satisfied that eight (of the nine) Non-executive Directors (including the Chairman) are independent, which is in line with the requirements of the Board Charter and regulatory guidelines that require the Board to be comprised of a majority of independent Non-executive Directors.

The Board recognises the critical role played by independent Non-executive Directors in bringing independent judgment to matters under deliberation and in scrutinising decisions to be taken by the Board. Their objectivity is also integral to monitoring the performance of executive Directors and management, who have direct responsibility for the day-to-day business operations. In doing so, Directors are expected to ensure that they do not have any relationships or other interests that could materially interfere with their independence or otherwise impede their ability to act in the best interests of the Company and its stakeholders.

Conflict of interest

Directors are expected to avoid putting themselves in any positions where their interests' conflict or could be perceived as conflicting with those of the Company. Where a Director is directly or indirectly interested in a matter to be considered by the Board, the Director is required to declare the nature and extent of his/her interest in writing, in advance, for review by the Board. In addition, when a potential or actual conflict of interest arises, the conflicted Director is under a duty to immediately notify the Chairman and Company Secretary of the conflict.

The Company Secretary maintains the Company's register of declared conflicts of interest, which Directors are required to complete and regularly update. In practice, the Directors review and sign the register after every scheduled Board meeting. Further, at the start of all Board or Board Committee meetings, Directors are required to declare if they have any interests in any matters on the agenda.

A Director who has declared a conflict of interest on a matter to be deliberated on at a Board or Committee meeting is required to recuse himself/herself from the deliberations and voting on the subject matter. Where a conflict is significant (especially if it is ongoing in nature) the Board may call upon the affected Director to resign.

Directors' interests in the Company during the year ended 31 December 2022

Director	Number of shares in the Company
Jeremy Awori*	67 300
Yusuf Omari	100 000

*Resigned as a Director on 31 October 2022

Skills, experience and diversity

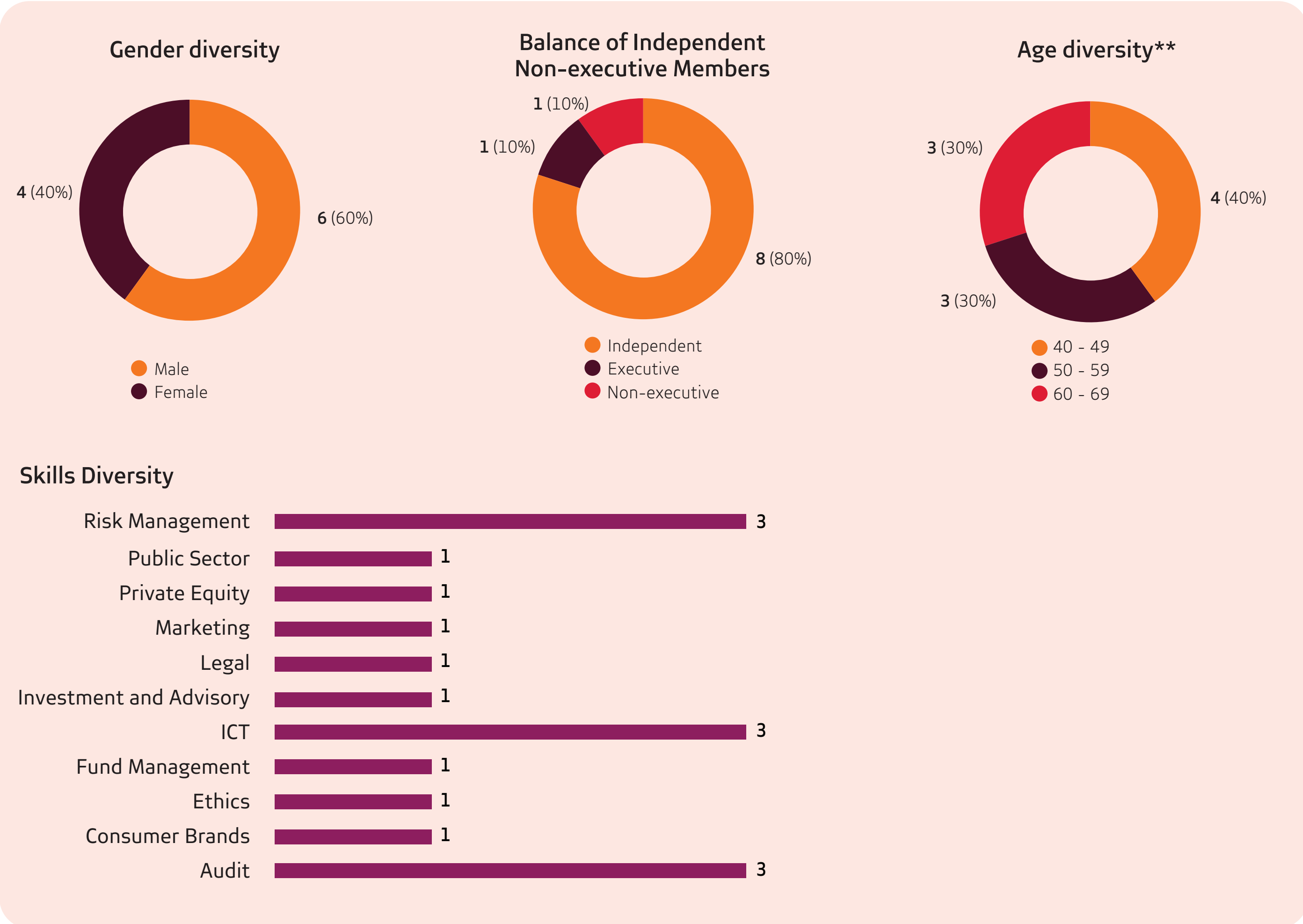
The Board determines the mix of skills and experience necessary on the Board depending on the business needs and its strategy. The Company Secretary maintains a skills matrix of Board members which is regularly reviewed and updated to align to evolving and enhanced Board skills and expertise of the Board members. Through the Nominations Committee, the Board periodically reviews its composition, including the balance between Executive, Non-Executive and independent Non-executive Directors, the Board's size and structure and gaps in diversity, skills as well as experience needed to deliver on the strategy. Diversity is a key principle of the Absa Way Code of Ethics, additional detail on which is given later in this statement.

In assessing candidates who would most benefit the Board, the Nominations Committee considers the potential candidates' knowledge and experience of the Kenyan market, the financial services sector in Kenya and the region, and the regulatory environment, as well as their ability to plug a significant gap in the skills matrix. Among the critical skills possessed by the Company's Directors are strategy and corporate governance, finance, audit and accounting, information technology, legal experience, risk management, retail and consumer, brand management, marketing, media and digital space, private equity, investment banking and fund management.

The list of the Board members in office during the year as well as their tenure on the Board and skills and industry experience is indicated below.

Director	Skills and Industry Experience	Category	Age	Date of Appointment	Tenure (Years and months)	Nationality	Gender
Charles Muchene	Risk Management, Strategy, Corporate Governance, Audit, Quality Assurance, Accounting and Financial advisory, Risk Management, Citizenship & Sustainability, Financial Services	Independent Non-Executive	65	22 August 2016	6 yrs 4 mths	Kenyan	Male
Patricia Ithau	Retail and Consumer, Strategy, Brand Management, Consumer Goods	Independent Non-Executive	56	23 February 2016	6 yrs 10 mths	Kenyan	Female
Laila Macharia	Investment Banking, Assets and Liabilities, Legal and commercial services and advisory	Independent Non-Executive	52	11 August 2014	8 yrs 4 mths	Kenyan	Female
Japheth Olende	Insurance, Financial Services, Risk Management, Bancassurance	Independent Non-Executive	69	7 March 2018	4 yrs 9 mths	Kenyan	Male
Louis Otieno	Information Technology, Strategy, Marketing	Independent Non-Executive	58	7 March 2018	4 yrs 9 mths	Kenyan	Male
Jeremy Awori*	Business Management, Financial Accounting, Financial Services, Strategy and Corporate Governance	Executive	52	1 February 2013	9 yrs 10 mths	Kenyan	Male
Yusuf Omari	Financial advisory, Financial Accounting, Business Management, Strategy and Corporate Governance	Executive	48	1 June 2009	13 yrs 6 mths	Kenyan	Male
Charles Murito	Media, Information Technology, Digital Space, Sales	Independent Non-Executive	46	24 June 2020	2 yr 6 mths	Kenyan	Male
Fulvio Tonelli	Audit, Risk & Quality, Finance, IT, Strategy	Non-Executive	62	1 October 2020	2 yr 2 mths	South African	Male
Christine Sabwa	Corporate governance, Banking, Business Strategy, Operational risk, Policy formulation, Financial Management, Financial modelling, Auditing.	Independent Non-Executive	49	9 February 2022	10 mths	Kenyan	Female
Kedibone Imathiu	Audit, Accounting Advisory, Corporate Finance, Private Equity, Fund Management, Corporate Governance	Independent Non-Executive	41	1 November 2022	1 month	South African	Female

A visual representation of the Board composition is included below:



The Board is satisfied with its size and structure as well as its composition and diversity in terms of background, skills, knowledge and experience.

Board nominations

The Nominations Committee ensures that there is a process in place for the appointment of Directors, (in line with the Governance Framework) and oversees the process, including setting the criteria for selection based on its assessment and recommendations on the composition of the Board and the desired balance of skills, knowledge and experience. As part of the selection process, the Nominations Committee requires potential Directors to disclose any potential conflict and reviews the nature of the candidates' other interests and the likelihood of any actual or potential conflict of interest in order to satisfy itself that the Directors' commitments will not hinder their ability to act in the best interests of the Company.

In practice, on request of the Chairman or the Board (and with the support of professional consultants, where needed), the Nominations Committee identifies and shortlists candidates for appointment to the Board. The Nominations Committee meets with each of the shortlisted candidates and makes its recommendations to the Board. All candidates must meet CBK's "fit and proper" requirements before their appointment is confirmed.

Once appointed, Non-executive Directors receive a formal letter of appointment which sets out, among other things, the Company's expectations of them in terms of time commitment, Committee service and involvement outside Board meetings.

Directors' induction and continuing education

All newly appointed Directors participate in an induction programme within the first three months of their appointment and are furnished with a Board file containing information on the Board and the Company, which they will need to become effective in their role within the shortest possible time.

The induction programme involves meetings with fellow Board Members, the Managing Director, top management and other key personnel. The new Director also receives extensive guidance from the Company Secretary on their responsibilities and liabilities as established by the Companies Act as well as the Banking Act, Chapter 488.

To ensure that all new and existing Board members remain abreast of developments in governance, relevant legislation and regulation, and the technical matters dealt with by the Board, an assessment is carried out annually as part of the Board evaluation to identify any Directors' training and development needs. The Chairman also regularly reviews the professional development needs of each Director, arising from one-on-one engagements with the Directors and feedback collated during the annual Board performance evaluation. The outcome of these training and development needs assessments is incorporated into the Board development plan, which guides the Board trainings that are implemented each year.

In furtherance of the Board's commitment to continuous education, its members engage in sessions with both local and overseas experts in areas of general corporate governance as well as in specific fields relevant to the Bank's operations and those arising from the Board development plan. The Board completed several education sessions during the 2022 financial year, details of which are given later in this statement.

Each of the Board Members in office during the 2022 financial year met or exceeded the minimum of twelve (12) prescribed training hours on governance areas during the year under review.

Access to information and independent advice

To make timely and accurate decisions, the Board is authorised to access information from the Company's employees through the Chairman and the Company Secretary. A comprehensive Board pack that consists of reports and briefings from finance, risk management, and each of the key business areas for the Bank is also provided ahead of every Board meeting.

In circumstances where the Board or its Committees determine the need for independent professional advice, the Bank through the Company Secretary avails such a resource at the expense of the Bank. The Board is also at liberty to conduct or direct any investigations to fulfill its responsibilities and can retain, at the Company's expense, any legal, accounting, or other services that it considers necessary from time to time to fulfill its duties. In the year 2022, the Board did not make use of any independent professional advice and did not direct any investigations to be conducted.

Appreciating that the Board accesses and comes into contact with critical information to the Bank, the Directors are expected to strictly adhere to the provisions of the statutes applicable to the use and confidentiality of information. All Directors have unlimited access to the services of the Company Secretary who is appointed by, and can only be removed by, the Board and guides the Board on best practices for corporate governance.

The Board's oversight role in sustainability

As the highest decision-making body with overall responsibility for oversight over the management of the Bank, the Board demonstrated its continued commitment to people, planet, and profit by approving a sustainability commitment in November 2020. The sustainability program aligns with the Sustainable Development Goals, the Paris Climate Agreement, and the UN Global Compact Principles among others.

The Audit and Risk Committee is responsible for monitoring the Sustainability Programme commitments and climate-related risk, as well as the development of the Sustainability Commitment report. The Strategy Committee is responsible for providing oversight on strategy related matters of Sustainability. Details on the sustainability commitments and how they are embedded into the Company's wider business units and integrated into its operations can be found in the Sustainability Commitment Report, which is available on the Company website (www.absabank.co.ke)

Risk governance

Risk is an inherent part of the Company's business. Effective management of risk is a fundamental enabler of the Bank's strategic plan. The strategy for managing risk is aimed towards customer protection and enabling sustained performance. This is achieved through the Company's Risk Management Framework. The Company is exposed to both financial and non-financial risks and is committed to having risk management policies, processes and practices that support a high standard of governance. This enables management to undertake prudent risk-taking activities.

The Board, through the Audit and Risk Committee, oversees the risk management strategy and framework, taking into account the risk appetite, prudential capital, and liquidity requirements, as well as the strategic and business priorities of the Company. This includes setting and reviewing the risk appetite, monitoring the effectiveness of the risk management framework, and making changes to it as necessary.

The detailed report on the Company's Risk Management for the year ended 31 December 2021 is on page 30 - 35 of the annual report.

IT governance

The Bank's internal operations and its delivery of value to customers and stakeholders are heavily hinged on technology. Given the critical role of technology, the Board recognises its overall responsibility for IT governance and exercises this by ensuring that an ICT Policy is in place and compliance therewith is regularly monitored. Through the ICT policy, the Board is able to provide an oversight role and ensure that the Bank's IT infrastructure enables it to deliver on its strategic objectives.

The Board, through the Audit and Risk Committee, also receives regular updates on the environment across the technology estate, covering stability, resilience, regulatory change, and transformative digital projects. In 2021, the Board made a bold commitment to significantly invest in technology; KShs 1.6 billion was spent on modernizing technology and supportive infrastructure to position the Bank favourably for the digital era while driving efficiency and improving customer experience. In 2022, the Bank accelerated the technology transformation by focusing on and leveraging cloud-based technologies to benefit from speed, scalability, and flexibility.

The Company Secretary

The Board of Directors has appointed a Company Secretary on a full-time basis. The Company Secretary is the independent custodian of governance for the Board and provides dedicated practical support to all its members. The Company Secretary is also a member in good standing of the Institute of Certified Secretaries of Kenya (ICS). Her profile, qualifications and experience are outlined on page 84 of this report.

The Company Secretary guides the Board on its duties and responsibilities and on other matters of governance. The Company Secretary is also responsible for (among other matters) monitoring compliance with and regular review of the Company's Articles of Association and the Board Charter and procedures, for implementing the governance framework, for induction of new Directors and periodic training of Board members, for developing the annual Board work plan, for facilitating good information flow between the Board and management, for assisting with and coordinating the Board Evaluation exercise and the governance audit process, for maintaining the register of declared Directors conflicts of interest, for maintaining the Board skills matrix, and for providing administrative support to the Board and Board Committees. The Company Secretary attends all the Board and Committee Meetings as well.

The performance of the Company Secretary is assessed by the Board as part of the annual Board performance evaluation process.

How the Board operates

Role of the Board

The Board is responsible to shareholders for creating and delivering sustainable shared value. The Board achieves this by managing the Company's business, either directly or through the operation of its Committees and delegated authority. Some of the key roles that the Board played in line with the Board Charter in the year include but are not limited to: approving the strategic and financial plans that are to be implemented by management; overseeing the Risk Management Framework and its implementation by management; reviewing the Company's risk appetite levels; considering and approving various significant capital expenditures, such as the IT investment required for the technology transformation; reviewing succession planning for the management team and making senior executive appointments, as well as organizational changes and high-level remuneration issues; providing oversight over performance against targets and objectives; providing oversight over reporting to shareholders on the direction, governance and performance of the Company as well as other processes that require reporting and disclosure; providing oversight over the activities of the subsidiaries of the Company; monitoring financial performance and reporting and approving the financial statements to be published and circulated to the shareholders; establishing and reviewing internal control systems and information systems on a regular basis.

The Board has delegated its authority to four standing Committees. These are the Audit and Risk Committee, Credit Committee, Corporate Governance Nominations and Remuneration Committee and Strategy Committee. The Board also has an ad hoc Committee, the Crises Response Committee to deal with any crisis requiring the Board's intervention or involvement. This ad-hoc committee did not have any need to meet in 2022. The reports on the activities of each Committee are on page 95 - 98 of this statement.

The Board has also delegated the responsibility for the day-to-day management of the Company to the Managing Director, who leads the Country Management Committee. The Managing Director is responsible for recommending strategy to the Board, leading the Country Management Committee, and making and implementing operational decisions. Once the Board has set and approved the strategy, it subsequently approves the Medium-Term Plan as well as the annual budget aligned to the Strategy, and regularly monitors the performance of the Managing Director and Country Management Committee against it.

The Chairman is responsible for leading the Board and ensuring its effectiveness. In doing so, he works with the Managing Director, Chief Financial Officer and Company Secretary to ensure that the Directors receive accurate, timely and clear information about the Company's business and operations as is needed to enable the Board to fully discharge its obligations.

The roles of the Board Chairman and Managing Director are separate, and their responsibilities are clearly established, set forth in writing in the Board Charter and agreed upon by the Board. The responsibilities of the Board and Management are also separate, clearly articulated in the Board Charter and understood by the Board and Management.

Whereas the roles of the Non-executive Chairman and the Managing Director are distinct, they maintain frequent contact with each other and other Board members throughout the year outside of the formal meetings.

Board and Board Committee meetings

In line with the Board charter, the Board puts in place an annual work plan that sets out its activities for the year. The annual work plan for 2022 (developed by the Company Secretary with input from the Chairman and the Board), setting out the agenda and dates of the quarterly Board meetings as well as the dates of special Board meetings, was approved by the Board in November 2021.

The Board work plan is reviewed and adapted regularly to ensure that all matters reserved for the Board, and any other pertinent matters, are discussed at the appropriate time. The plan factors in periodic business performance reviews, strategy implementation and monitoring, review of business plans, budgets and financial statements, and the Board's other responsibilities identified in the Board charter.

It is the Board's practice to hold a minimum of six scheduled Board meetings a year. The four standing Board Committees meet at least quarterly and additionally as required.

Seven Board meetings were held in 2022. A two-day Board strategy off-site retreat was also attended by all Board and Country Management Committee members on 1 and 2 November 2022. Further, there were two Board training programmes in the course of 2022, giving Directors' insights and deeper knowledge on pertinent matters including customer acquisition, digital marketing, financial crime, enterprise risk, artificial intelligence, and machine learning and future-fit leadership, among others.

All Directors are expected to attend all Board meetings, Board strategy or planning sessions, Board training sessions, and meetings of Board Committees where they are Members, unless there are exceptional circumstances that make it impossible for them to do so. Directors may also attend meetings of Board Committees of which they are not members, on giving prior notice to the relevant Committee Chair. Directors participate in meetings through physical attendance or by electronic or digital means of audio or audiovisual communication, as designated by the meeting Chair. Board members who are unable to attend meetings are required to advise the meeting Chair, through the Company Secretary, in writing as early as possible.

The Board held two physical meetings during the year (the Quarter 1 and Quarter 3 Board meetings), in addition to the annual strategy retreat. All other meetings of the Board and its Committees, as well as director development sessions, continued to be held virtually during 2022.

The notice, agenda and detailed papers for the Board and Committee meetings are circulated at least seven days in advance of each meeting to give the Board members adequate time to review the materials and prepare for the meeting. In addition, where Directors have not been able to attend meetings, they receive and read the papers for consideration at that meeting and have an opportunity to relay their comments and questions in advance and, if necessary, follow up with the Chairman thereafter. Directors are entitled to request any additional information besides the meeting materials where they consider that it is necessary to support informed decision-making.

The quorum for Board meetings is a majority of the Directors present either in person or by electronic or digital means. The Directors recognise that while each of its members bears individual responsibility towards the Company, they are collectively responsible for the Board's decisions. In this spirit, although the Company's Articles of Association grant each Director one vote (and the Chairman a second or casting vote in the event of an equality of votes) for purposes of achieving the majority votes required to determine Board decisions, it is the Board's practice to reach its decisions by consensus. In the event that consensus is not reached at a Board meeting, the Chairman holds further engagements with the Board, failing which, external advice and other appropriate means may be pursued to arrive at a consensus.

During the year, the Board acted as a unit and reached all its decisions by consensus.

Board Committees

The Board, on the recommendation of the Nominations Committee, appoints Committee members and Committee Chairpersons. The Nominations Committee also reviews Committee memberships annually and makes appropriate recommendations to the Board. Procedurally, each Committee is required to comprise at least three members, a majority of independent Non-executive Directors and an independent Chairperson.

The Board Audit and Risk Committee is made up of only Non-executive Directors, a majority of whom are independent in line with the provisions of the CBK Prudential Guidelines. The Audit and Risk Committee is subject to appointment annually by the shareholders in accordance with Section 769 of the Companies Act.

The Company Secretary also serves as secretary to the Committees. The Board has put in place Terms of Reference that set out the roles and responsibilities and the procedural rules that apply to each Board Committee. At each subsequent Board meeting, Committee Chairpersons are required to report to the Board on their discussions and decisions and to seek approval of their key recommendations, where necessary.

Directors' attendance at scheduled Board and Board Committee meetings during 2022:

Total number of scheduled meetings	Main Board	Audit and Risk Committee	Corporate Governance, Nominations and Remuneration Committee	Credit Committee	Strategy Committee
	4	8	4	4	4
Members	Attended	Attended	Attended	Attended	Attended
Charles Muchene	4		4		4
Patricia Ithau	4	7 (8)	4		
Laila Macharia[1]	4	7 (8)		4	4
Louis Otieno	4	8			4
Japheth Olende	4		4	4	
Charles Murito	4		4	3 (4)	
Fulvio Tonelli[4]	3 (4)	8		4	0 (0)
Jeremy Awori[5]	4				3 (4)
Yusuf Omari	4				
Christine Sabwa[2]	4	7 (8)			
Kedibone Imathiu[3]	1 (1)	1 (1)			

* Numbers in brackets denote the number of meetings which these members were eligible to attend. The Board also held three (3) ad hoc meetings in the year to discuss urgent matters which arose requiring the Board's input. The Audit & Risk Committee also held one (1) ad hoc meeting to discuss a pressing matter requiring the Committee's attention.

[1] Ms Laila Macharia stepped down as Chair of the Audit and Risk Committee on 30 June 2022 and as a member of the Committee on 31 October 2022.

[2] Ms Christine Sabwa joined the Board of Directors and the Audit and Risk Committee on 9 February 2022 and took over as its Chair on 1 July 2022.

[3] Ms Kedibone Imathiu joined the Board and the Audit and Risk Committee on 1 November 2022

[4] Mr. Fulvio Tonelli joined the Strategy Committee on 1 November 2022.

[5] Mr Jeremy Awori stepped down from the Board on 31 October 2022

All the Directors in office at the time of the Annual General Meeting held on 26 May 2022 attended the AGM.

Board activity

The Board's overall strategic objectives are to focus on the four broad areas of its responsibility (strategy, policy, oversight and accountability), to embed sustainability across the organization, and to achieve the desired outcomes of effective governance, which are ethical culture, good performance, effective control and legitimacy.

The Board's priorities for the financial year ended 31 December 2022 included new focus areas for the Bank's strategy over the next horizon, monitoring implementation of the strategy, including the sustainability plan, achieving agility in the new normal, leveraging the Absa brand, the Bank's transition to a financial services institution (FSI) providing a full range of services, policy updates and promotion of the right corporate culture.

During 2022, the Board discharged its responsibilities through its annual work plan of meetings. Items of business considered critical to Absa's long-term success through achievement of the key priorities include:

- Oversight over the Company's businesses and review and approval of the strategic objectives and policies of the Company;
- Implementation of the Bank's sustainability programme;
- Providing overall strategic direction within a framework of rewards and controls;
- Ensuring that Management strikes an appropriate balance between promoting long-term sustainable growth and delivering short-term performance.

The Board's oversight over the fundamentals of its key priorities involved approving the Bank's Short-term Plan (STP), the Medium-term Plan (MTP), its Internal Capital Adequacy Assessment Process (ICAAP), regular review of the macroeconomic environment and the business performance of each of its units and subsidiaries, approving the Bank's Risk Appetite Statement for 2022 and Risk Management Frameworks, approving various Strategy Reports, Compliance and Group-wide Policies and Standards, approving the 2022 Strategy and reviewing its implementation dashboard, receiving reports from Committee Chairs on the work undertaken by their respective committees, receiving reports from the boards of subsidiaries, significant credit reviews completed in each quarter and the significant new business deals in each quarter. The Board also approved the proposal to appoint two new independent directors, Christine Sabwa and Kedibone Imathiu, the open and closed periods for trading in the Bank's shares, the new Board Fees with effect from 1st January 2022, the 2023 Salary Mandate, the Retail and Corporate Bank Write-offs, the Board Charter, Board Committee Terms of Reference, Board and Committee Work Plans and Subsidiary entities' Board Charters.

Selected examples of some of the principle decisions taken by the Board in 2022 are described below:

- Appointment of an interim Managing Director on Mr. Jeremy Awori's resignation
- Creation of a special Board taskforce to manage the recruitment of a Managing Director following the resignation of the Managing Director in October 2022
- Review and approval of the Company's Strategy Execution plan and Scorecard for the years 2023 to 2028
- Review and approval of the Retail Digital and Youth Strategy
- Approval of Cloud Migration and adoption strategy

Board performance

The Board evaluates its own performance and that of its Committees, individual Directors, the Board Chairman, the Managing Director and the Company Secretary every year as required by CBK and the Capital Markets Authority. The evaluation is facilitated externally after every two years. Boards of Subsidiaries' evaluations are also performed biannually.

In the years when an external facilitator is not engaged, such as in 2022, the Chairman leads the assessment of the Board and each Director, with the coordination of the Company Secretary.

The Board evaluation involves questionnaires being completed by each of the Directors and respective Committee members. The 2022 Board evaluation sought feedback from each of the Directors on the overall performance of the Board and its Committees and on each of the individual Directors. The results are collated confidentially by the Company Secretary, reviewed by the Chairman and a report of the findings is discussed by the Board.

The detailed questionnaire examines the size, diversity, skills and experience of the Board, the operation of the Board in practice, including governance issues, and the content and conduct of the Board meetings. Feedback from the process is used to identify opportunities to improve the performance of the Board, Board Committees and the Directors.

The 2022 Board evaluation was conducted in December 2022/January 2023, and the results were presented to the CBK in March 2023 in line with regulatory requirements. The overall results of the 2022 Board Evaluation were positive, indicating that the Board and its Committees were effective and that each Director was contributing effectively and demonstrating commitment to their role. The Chairman's performance was also reviewed, and his leadership and performance were considered to have been of a high standard.

Key recommendations from the 2022 Board Evaluation were noted as follows:

- The Board to adopt a more future focused approach which should be reflected in the board agendas having more forward-looking matters than historical
- The Board to continue providing oversight on the youth digital strategy as a key area of focus
- The Board to develop its succession pipeline register based on the future board skills required
- The Board to provide input and oversight of the stakeholder engagement plan which maps the key stakeholders of the bank
- The Board to establish a customized Board Development Plan for individual director needs and board as a whole

Implementation of the recommendations from the 2022 evaluation will be monitored by the Nominations Committee.

Ongoing actions arising from the recommendations in the 2021 Board evaluation are detailed below.

- The Board's succession pipeline register is in progress, with suitable candidates being identified for consideration for future board opportunities.
- The Board has put in place mechanisms to ensure its engagement with Group Representatives continues through the Strategy Committee and Board Taskforce.
- The Bank has developed a youth digital strategy that encompasses strategies to engage and incorporate the youth as part of its growth agenda in the next strategy period.
- The Board has put in place a Board development plan based on feedback received from board members on their developmental areas.

Over and above the evaluation of the Board and its members, the Board has also established mechanisms for the evaluation of the Chairman, the Managing Director, as well as the Company Secretary as these are critical positions that directly impact the performance of the Board.

Directors' induction and continuous education

All newly appointed Non-Executive Directors participate in an induction programme. The induction programme includes a series of meetings with other Directors, the Managing Director and senior executives to enable new Directors familiarise themselves with the business. Directors also receive comprehensive guidance from the Company Secretary on Directors' duties and liabilities.

All Directors are expected to maintain the skills required to carry out their obligations. The Chairman regularly reviews the professional development needs of each Director, arising from one-on-one engagements with the Directors and feedback collated during the annual Board performance evaluation. The Board's program of continuous education ensures that the Board is kept up to date with developments in the industry both locally and globally. It includes sessions with local and overseas experts in the areas of general corporate governance and also in the particular fields relevant to the Company's operations.

The Board completed a number of education sessions during the 2022 financial year which took place on 30th June (9.00am – 4.30pm), I July (8.30am – 12.30pm) and 30th November (9.00am -10.30am) (total 12 training hours as indicated in the board training calendar below). Customer Acquisition, Digital Marketing, Financial Crime, Enterprise Risk Management Framework (ERMF), Operational Risk Management Framework (ORMF), AI Machine Learning, Climate related Risk Management, Sustainability Management and Future Fit Leadership.

Directors gained insights and a deeper knowledge of the business in various areas such as. Each of the Board members in office during 2022 met the minimum of twelve (12) prescribed training hours on governance areas during the year under review. The Board members also engaged in personal development sessions beyond those offered by Absa.

ABK Board Training Schedule

Date and Time	Topic	Trainer
Thursday 30 June 2022		
9.00 – 10.30am	Customer Acquisition and Digital Marketing	External
11.00 – 1.00pm	Compliance – Financial Crime	Internal
2.00 – 4.30pm	Enterprise Risk Management Framework (ERMF) and Operational Risk Management Framework (ORMF)	
Friday 1 July 2022		
8.30 – 10.00am	AI Machine Learning	Internal
10.30 – 12.30pm	Climate related risk management and Sustainability Management	External
Wednesday 30 November 2022		
9.00 – 10.30am	Future Fit Leadership	External
Total training hours: 12 hrs		

Boards of Subsidiaries

The Company's Board of Directors oversees the activities of each of its subsidiaries. The Board ensures the appointment of high-quality Directors to the Boards of its subsidiaries, and at least one of the Company's own Directors sits on each subsidiary Board to ensure that the Company's strategy, values, culture and corporate governance principles are cascaded to the subsidiaries.

Board Committee reports

Christine Sabwa
(*Chair)*

Committee Members
Christine Sabwa *(Chair)*

Ms Laila Macharia *(Stepped down on 31 October 2022)*

Patricia Ithau

Louis Otieno

Fulvio Tonelli

Kedibone Imathiu - *Appointed on 1 November 2022*

Audit and Risk Committee

I am pleased to present this report, which is my first as Chair of the Audit and Risk Committee. I joined the Committee in February 2022 and succeeded Ms. Laila Macharia as Chair in July 2022. I draw on my background in banking, finance and audit to recognise that people, processes and systems are crucial in managing financial reporting, audit and compliance risks, which is a key role of this Committee.

Role of the Committee

In carrying out its primary role of ensuring integrity in financial reporting and audit and overseeing the maintenance of sound internal control and risk management systems, the Committee's work involves approving the work plan of the internal auditor, considering the adequacy of the scope of the external audit plan, the effective adoption of a combined assurance approach by the responsible business units, and oversight of the Bank's Sustainability programme. The committee has unrestricted access to company information falling within the committee's mandate and liaises with management on the information it requires to carry out its responsibilities.

In 2022, the Committee received reports on the findings of the auditors and material issues raised by the critical second- and third-line risk functions and reviewed the actions provided by the business teams to remediate the identified deficiencies. The Company has established an internal audit function that is headed by the Chief Internal Auditor who reports directly to the Committee.

In addition to overseeing controls and financial reporting, the Committee also oversees the enterprise-wide view of risks and controls and assesses the overall risk appetite and risk profile of the business. It meets quarterly to oversee all matters about credit, market, operations, legal, environmental, compliance and other risks. The Committee is also responsible for ensuring that the Company has a robust Business Continuity Plan that is tested annually.

During the year, the Committee also reviewed and approved the revised Audit Charter, which guides the internal audit function of the Bank; reviewed and recommended the approval of various Compliance policies and standards; reviewed the status of various compliance requirements and recommended appropriate actions to ensure continued full compliance; approved the Bank's Risk Appetite Statement; reviewed and recommended the Bank's Internal Capital Adequacy Assessment Process (ICAAP) to the Board for approval; reviewed regular reports on the status of whistleblowing matters in the Company; received reports from the external auditor on key matters; and reviewed the progress of implementation of the Data Protection Act of 2019.

In 2022, the Committee received Ernst & Young, the former external auditor's report and assurance on the financial statements for the year ended 31 December 2021. The Committee recommended the appointment of Messrs. KPMG East Africa Limited as the Company's external auditors for the year ending 31 December 2022, a recommendation that was approved by the Board and later by the shareholders at the 2022 Annual General Meeting. The Committee considered the adequacy of the scope of the external audit plan by KPMG and was assured of their independence.

The Committee also received and considered several reports, including the enterprise risk management report, the operational risk management report, the cyber and technology report, the cloud migration strategy, the control positions report, the litigation report, and compliance reports.

Patricia Ithau
(Chair)

Committee Members

Patricia Ithau *(Chair)*

Charles Muchene

Japheth Olende

Charles Murito

Corporate Governance, Nominations and Remuneration Committee

I am pleased to present my report as the chair of the Corporate Governance, Nominations and Remuneration Committee, which continues to ensure that the Bank and its subsidiaries adhere to the highest standards of governance.

The Corporate Governance, Nominations and Remuneration Committee met four times during the year.

Role of the Committee

The Committee's overall strategic objectives are to implement best-in-class governance practices, procure the best talent for the Board and develop and obtain the highest value from them, monitor the Bank and its subsidiaries' HR practices at a strategic level and promote the right Board culture.

In carrying out its role, the Committee is responsible for developing a Board succession pipeline, Board development, top talent management and succession planning, oversight of the remuneration philosophy, which involves overseeing the Bank's compensation system's design and operation against the Bank's strategic objectives and desired culture, and reviewing the compensation arrangements and incentives against the risks posed to the Bank.

The Committee is responsible for the development of a Remuneration Policy that considers strategic human resources, remuneration and other succession planning with respect to the executive management. On a biennial basis, the Committee also proposes the level of remuneration that is to be paid to Non-executive Directors and the Chairman in accordance with the Board Charter, subject to sanction by a special resolution of the Shareholders as required in terms of the Companies Act, 2015. A report of the Directors' Remuneration is presented to the Shareholders in the Annual General Meeting for their approval and is also disclosed in the annual financial statements of the Company. The Directors' Remuneration Report is contained in page 103 - 107 of this report.

The Committee facilitated the two Board development sessions in June and November 2022 for a total of 12 hours, which were run by a combination of internal and external facilitators. The Board members received development in various areas such as customer acquisition and digital marketing, compliance, financial crime, the Enterprise Risk Management Framework (ERMF), artificial intelligence and machine learning, Climate-related Risk Management and future-fit board leadership. The Committee also conducted the annual review of the format of the Director's Declaration of Independence, reviewed the outcome of the 2022 Board evaluation exercise, monitored implementation of recommendations arising from the 2021 Board evaluation, reviewied the Board skills matrix and composition of the Board, Board Committees and subsidiary Boards, reviewed the Board calendar and annual work plan for the Board as well as its Committees, received regular reports on HR matters, including the performance evaluation process and remuneration, reports on the Bank's Sustainability programme and the report from the Legal and Compliance Audits and Governance Audits, which were conducted in the course of the year, and the key actions from the Audits.

During the year, the committee also reviewed the re-election of Directors to the Board, evaluated and nominated two candidates for appointment as Non-executive Directors, resulting in improved gender diversity on the Board, made proposals on the reconstruction of the Board committees, which were implemented in the year, such as the appointment of the new Audit and Risk Committee Chairperson, Ms. Christine Sabwa, reviewed Legal entities and Directors' policy and reviewed the Group Governance Framework. The Committee also reviewed and recommended to the Main Board for approval the 2023 Salary Mandate, the Board Committee Terms of Reference and Work Plans for the Year 2023, and the Subsidiaries' Board Charters.

On recommendation of the Committee, the Board formed a Special Taskforce to manage the process of the Managing Directors' succession on behalf of the Board.

Laila Macharia
(Chair)

Committee Members

Laila Macharia (Chair)

Japheth Olende

Charles Murito

Fulvio Tonelli

Credit Committee

I am pleased to present the report of the Credit Committee, which is the ultimate sanctioning authority for lending in the Bank.

The Credit Committee met four times during the year.

Role of the Committee

The key objectives of the Committee are to provide a continuing forum to discuss and review credit policy and strategy, monitor and advise on credit risk appetite and tolerances, track compliance with statutory and regulatory requirements on lending limits, capital adequacy and statutory ratios, give input on non-credit risk issues, including political, environmental and social economic matters that should be taken into account in making sanctioning decisions, offer guidance on lending to persons and institutions that may impact the Bank's reputation and relationships with key stakeholders, and monitor the overall health of the Bank's lending book.

To achieve its objectives, the Credit Committee plays a critical role in the formulation and review of lending policies while ensuring that they are in compliance with regulatory requirements. It also assesses the credit quality and risk profile of the Bank's lending book by sector and by product. It thereafter makes recommendations to the Board on remedial actions as well as any measures that may enhance the quality of the lending book.

In 2022, the Committee recommended for Board approval the significant credit reviews completed, and the new business deals reviewed in each quarter, received quarterly reports on the performance of Absa Business Support and Corporate Recoveries Accounts, reviewed the Bank's retail lending policies and policy initiatives aimed at ensuring continued growth in the retail lending book taking into account any relevant mitigating risks, regularly tracked the status of the top 20 exposures on the Bank's balance sheet, monitored the Bank's impairment risk and proposed mitigating strategies and assessed the Bank's risk appetite for significant new business deals.

The Committee also regularly reviewed the Bank's concentration risk by industry and portfolio segments and ensured that an appropriate balance was maintained, approved the Retail and Corporate write-offs for the year, assessed periodic reports on Directors' lending, and reviewed and recommended the approval of various Credit policies.

Louis Otieno
(Chair)

Committee Members

Louis Otieno (Chair)

Charles Muchene

Laila Macharia

Jeremy Awori – Resigned on 31.10.2022

Fulvio Tonelli – Appointed on 01.11.2022

Strategy Committee

I am pleased to present this report of the Strategy Committee, whose main objective is to help the Company achieve its stated strategic objectives in a manner that delivers a meaningful return to shareholders.

The Strategy Committee met four times during the year.

Role of the Committee

The purpose and responsibility of the Committee is to assist the Board of Directors in discharging its oversight role in the development and implementation of the Bank's strategic plan and to evaluate mitigations to the risks associated with such a plan. The Committee considers Management's proposals on the various strategic options available to the Company and makes recommendations to the Board regarding the development of the Company's long-term strategic plans.

In particular, the Committee supports and/or challenges business expansion activities related to banks and non-bank entities as pertinent to the Company's stated strategic objectives; reviews capital allocation and planning to ensure an acceptable return on capital while ensuring the timely exit of businesses that do not provide an acceptable return or have limited growth prospects; reviews management's proposals on new business areas and systems, partnerships, acquisition targets, and the potential impact on the growth of the business; and encourages the Company to actively promote and reward a culture of innovation across the Company in a manner that benefits customers and shareholders, among many others.

During the year, the Committee regularly reviewed quarterly reports on the progress of implementation of the Bank's Strategy, finalised the Committee Work Plan and presented it to the Main Board for approval, continued to monitor the commercialisation of Data in the Bank, received reports on the progress of the Book of Works and received the progress report on the Financial MTP 2023–2024, among other matters.

Louis Otieno
(Chair)

Committee Members

Louis Otieno (Chair)

Charles Muchene

Laila Macharia

Jeremy Awori – Resigned on 31.10.2022

Ad Hoc Crisis Response Committee

The Committee did not meet during the year.

Role of the Committee

This ad hoc Committee's role is to assist the Board in oversight of the Bank and its subsidiaries' Business Continuity Plans in the event of any significant crisis, such as pandemics and force majeure events, as assessed by the Board. The mandate of the Committee involves overseeing the identification, management and mitigation of crisis risks in a comprehensive and integrated manner, providing strategic leadership and making appropriate recommendations in response to the emerging crisis, and overseeing the allocation and approval of sufficient resources towards development and testing of the crisis management strategy, policy, and framework, among others.

The Absa Way and key policies

Code of Ethics and ethical behaviour

The Company has put in place a Code of Ethics, the "Absa Way," which outlines its legal obligations, its values, and the behaviour that its stakeholders (who include customers, shareholders, and the broader community) can reasonably expect from it. The Code covers personal conduct, integrity, honesty, transparency, accountability, fairness and the prevention of corruption, among other areas. It emphasises the importance of making the right decisions and behaving in a manner that builds respect and trust in the organisation and sets out consequences for failing to meet its clear behavioural requirements.

The Company also has in place a suite of policies and practices to promote a culture of compliance, honesty and ethical behaviour, including in relation to anti-money laundering and counter-terrorism financing, whistleblower protection, gifts and entertainment, anti-bribery, and conflicts of interest. The Code of Ethics is reviewed and updated by the Board on a regular basis and distributed across the board to all employees and Directors.

Whistleblowing

The Company has zero-tolerance for fraud, corrupt conduct, bribery, unethical behaviour, legal or regulatory non-compliance, or questionable accounting or auditing by employees, Directors, customers and contractors and strongly encourages individuals to speak up about behaviours and practices that contradict Absa's values. The Company has in place a Whistleblowing Policy and a whistleblowing programme that foster an environment and culture of information sharing without fear of retaliation and provide protection and support to whistleblowers.

The programme provides confidential and anonymous communication channels to raise concerns. These channels are supported and monitored independently by Deloitte, details of which are provided below:

Telephone communication: Toll-free number: 0800 720 012 (Kenya)

Email communication : protect@tip-offs.com

All individuals are encouraged to raise any issues involving illegal, unacceptable, or inappropriate behaviour or any issue that would have a material impact on the organisation's customers, reputation, profitability, governance or regulatory compliance through the anonymous channels. There is zero tolerance for any actual or threatened act of reprisal against any whistleblower, and the Company takes reasonable steps to protect a person who makes disclosure of any inappropriate behaviour, including taking disciplinary action potentially resulting in dismissal for any person taking reprisal against a whistleblower.

The Audit and Risk Committee receives reports on whistleblowing on a regular basis (at least twice a year) and holds enquiries into the issues raised.

A copy of the Whistle Blowing Policy is available on the Company's website and is subject to annual review.

Restrictions on insider trading

As a publicly listed entity, in strict adherence to its continuing listing obligations, the Company prohibits insider trading to restrict any persons who have or may be perceived as having relevant unpublished price-sensitive information from potentially profiteering or avoiding loss unfairly. In line with the approved Absa Group Securities Dealing Code, Directors, employees and contractors (and their associates) are restricted from dealing with any securities and other financial products during closed periods as they possess insider information. They are prohibited from passing on insider information to others, who may use the inside information to trade in the Company's securities.

The Company has closed periods four times a year before the release of the Company's financial statements during which all related persons, Directors, employees and contractors (and their associates) must not trade in the Company's securities.

Other policies

The following additional notable policies have been implemented by the Bank according to the CMA Governance Code:

- Sustainability Policy
- Conflict of Interest Policy
- Related Party Transactions Policy
- Reward (Remuneration) Policy
- ICT Policies
- Enterprise Risk Management Framework
- Procurement Risks Policy

These policies apply to all employees and Directors of the Company, and to anyone working on the Company's behalf, including contractors and consultants. The Company adopts zero tolerance for all forms of corruption, bribery and unethical business practices.

The Board's approach to continuous stakeholder engagement

The Board aims to ensure that the need to maintain commercial success is balanced against meeting stakeholder expectations, maintaining the license to operate, and building trust. To this end, the board engages with many stakeholders regularly to ensure that it identifies and responds to their expectations effectively. Due to the influence and importance of the varying stakeholder groups, the Board must always make balanced decisions.

To assist it make decisions in the context of what is relevant and important to each stakeholder, the Board engages stakeholders to obtain feedback and identify emerging issues. This allows the board to build an understanding of how the company's actions or plans could impact stakeholders.

The Board receives certain information about stakeholders' perspectives from the work of the Audit and Risk Committee as part of its oversight role over sustainability and from the collection of investor feedback and communication via the investor relations function. Board members also regularly receive the Managing Director's report to the board, updates on developments in the macroeconomic environment and the legal and regulatory space, as well as regulatory corporate governance reports, which provide additional information on stakeholders. Engagements such as, the annual general meeting, employee surveys and experts presenting to the Board, or its Committees also provide additional sources of investor and other stakeholder feedback. Directors are also encouraged to report to the Board on their own personal experiences where these are relevant or material.

During 2022, the Company embarked on developing a Stakeholder Engagement Policy to guide it in managing relationships with the key stakeholder groups. This policy seeks to outline the Company's general principles and guidelines in its relations with stakeholders and will cover areas such as ethical business standards in dealing with customers, vendors and other relevant parties and the Bank's expectations of Management and its employees, among others.

The Company employs diverse channels and mechanisms to communicate and disseminate information to its various stakeholders, including shareholders. These channels and mechanisms include the Company's Annual Integrated Report, its Sustainability Report and availing full-year, half-year and quarterly financial results on the Company's website and through quarterly investor briefings. The Company files monthly investor returns to meet the continuing obligations as prescribed by the Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE). The complete list of shareholders is also filed annually with the Registrar of Companies as prescribed by the Companies Act.

The Company releases material information to CBK, CMA and NSE in line with all disclosure requirements in the CBK Prudential Guidelines, the Capital Markets Act, and applicable regulations such as the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002, the Banking Act, as well as all other relevant regulations.

Where appropriate, the Company uses media and other communication channels to disseminate pertinent information on its governance or performance to investors and other stakeholders.

Our shareholders

The Board seeks to engage directly with private retail and institutional shareholders through regular communications and the annual general meeting. During the year, the Bank's senior management also gave quarterly investor briefings to institutional investors, analysts and the media.

The Board of Directors are cognisant and committed to upholding their fiduciary duty to the company and its minority Shareholders to act in the best interests of the company. This is achieved through its commitment to adhere to exemplary corporate governance practices by ensuring that the Board remains comprised of a strong majority of independent Non-executive Directors.

The Annual General Meeting

The 2022 Annual General Meeting (AGM), held on 26 May 2022 in compliance with the requirements of the Companies Act 2015, was virtual and was attended by institutional shareholders, individual shareholders and a number of proxies. A total of 1 016 shareholders attended the AGM, representing 76.43% of the Bank's issued capital.

Reasonable opportunity was given for the shareholders to ask questions in advance of the meeting, and an online portal was availed to allow shareholders to register, attend and vote on all resolutions put to the meeting. To enhance accessibility, the portal was made available online, via USSD, and special arrangements were made for registration of shareholders outside Kenya at the time of the meeting.

The key agenda items deliberated on at the 2022 Annual General Meeting were the 2021 audited financial statements, the election of Directors retiring by rotation and those appointed to fill casual vacancies, the appointment of the Members of the Audit and Risk Committee, the Directors' remuneration, and appointment and remuneration of the Auditors. The notice of the 2022 AGM also had special business, whereby the shareholders were requested to adopt the recommendation of the Board to amend the minimum and maximum number of Directors prescribed by Article 86 of the Articles of Association of the Company to five and 14, respectively to align with the requirements of the Prudential Guidelines and the provisions of the Board Charter.

Investment community

The Company is committed to engagement with the investment community and consistently shares its story and communicates its strategy through its website, https://www.absabank.co.ke/investor-relations. Liaison with the institutional investors, brokers, analysts and rating agencies is part of the investor relations program, as are presentations during the announcement of our quarterly and annual results. The Investor Relations team is responsible for drafting certain market announcements, providing feedback to management and the Board on market views and perceptions about the Company and coordinating roadshows, including half-year and full-year results announcements. The Investor Relations team has the primary responsibility for managing and developing the Company's external relationships with existing and potential institutional equity investors. Supported by the Managing Director and the Chief Financial Officer, the Investor Relations team achieves this through a combination of briefings to analysts and institutional investors.

All shareholder queries, including application for registration of transfer of shares of the Company, immobilisation of shares, dividend queries, and dividend cheques, are handled by the Company's appointed shares registrar – **Custody & Registrars Limited** (C&R Group), who can be reached at their offices on the **1st Floor, Tower B, IKM Place**, **5th Ngong Avenue, PO. Box 8484 00100, Nairobi,** or through their email address **info@candrgroup.co.ke** and also through their telephone numbers **+254 20 869 0360, 0726 971 599 and 0737 095 124.**

Legal and compliance audit

The Board of Directors is responsible for establishing a functional framework of internal policies and procedures and monitoring systems to promote compliance with applicable laws, regulations and standards while still maintaining the culture of the Company and allowing it a healthy risk appetite. The policies and procedures of operation are also easily available to the Board as well as the Company's employees to ensure that everyone understands the way in which things should be done and how they are expected to behave.

Save for when the independent legal and compliance audit is carried out (at least once every two years), the CMA Governance Code provides that an internal legal and compliance audit should be carried out on an annual basis.

The Bank carried out an independent legal and compliance audit for the financial year ended 31 December 2022 with the objective of ascertaining the Company's state of compliance with applicable laws, regulations and standards.

The independent legal and compliance audit was carried out by Bowmans Associates and confirmed that during the period, the Company was generally in compliance with applicable laws and regulations, including the Companies Act, the Banking Act, and the Occupational Safety and Health Act, 2007.

The overall opinion from the legal and compliance audit was that the Board had put in place effective, appropriate and adequate systems and policies to enable the Bank to identify, and comply with the laws, regulations and standards that are required to be complied with in the ordinary course of its business in the interest of shareholders and other stakeholders.

Capital Markets Authority (CMA) – Corporate Governance Assessment report for the year ended 31 December 2022

The Company complies with the provisions of the Capital Markets Act and all the rules, regulations, and guidelines thereunder with monthly reports made to the CMA and material information shared in line with all disclosure requirements in the Capital Markets Act.

CMA assessed the Company's status of implementation of the CMA Governance Code for the year ended 31 December 2022. The assessment was based on a review of the following areas:

- Commitment to Good Corporate Governance (Leadership rating of 95%)
- Board Operations and Control (Leadership rating of 77%)
- Rights of Shareholders (Good rating of 73%)
- Stakeholder Relations (Leadership rating of 80%)
- Ethics and Social Responsibility (Leadership rating of 85%)
- Accountability, Risk Management and Internal Control (Leadership rating of 93%)
- Transparency and Disclosure (Leadership rating of 81%)

The overall rating awarded to the Bank was a leadership rating of 81%, which is a testament to the Board's commitment to sound corporate governance practices.

The Directors are satisfied that the Bank complies with the corporate governance principles and spirit of the CMA Governance Code.

Independent Governance Auditor's report

Introduction

Absa Bank Kenya Plc (the "Company"), in compliance with the Code, appointed Stamford Corporate Services LLP (the "Auditor") to conduct a Governance Audit for the year ended 31 December 2022 which comprised assessment of the governance practices, structures, systems, procedures and processes of the Company in order to assure the Board that its goals, structure and operations are consistent with the applicable laws and regulations, in particular, the Companies Act, 2015 ("the Act") and the Code of Corporate Governance for Issuers of Securities to the Public ("the Code") as well as the latest developments in corporate governance; and that the Company has adopted best practices in corporate governance as a means of ensuring sustainability.

Basis for opinion

The scope of the Audit is derived from the Code, the Companies Act and the Governance Audit Tool developed by the Institute of Certified Secretaries. It consisted of an assessment of the following elements of corporate governance:

- Leadership and strategic management;
- Transparency and disclosure;
- Compliance with laws and regulations;
- Communication with stakeholders;
- Board independence and governance;
- Board systems and procedures;
- Consistent shareholder and stakeholders' value enhancement;
- Corporate social responsibility and investment; and
- Sustainability.

The content was customized and adapted to the local standards and regulatory issues.

Board responsibility

The Board is responsible for putting in place governance structures and systems that support the practice of good governance in the organization. The responsibility includes planning, designing and maintaining governance structures through policy formulation necessary for efficient and effective management of the organization. The Board is responsible for ensuring its proper constitution and composition; ethical leadership and corporate citizenship; accountability, risk management and internal control; transparency and disclosure; members' rights and obligations; members' relationship; compliance with laws and regulations; and sustainability and performance management.

Governance Auditor's responsibility

Our responsibility is to express an opinion on the existence and effectiveness of Governance instruments, policies, structures, systems and practices in the Company within the legal and regulatory framework and in accordance with best governance practices as envisaged under proper Board constitution and composition; ethical leadership and corporate citizenship; accountability, risk management and internal control; transparency and disclosure; members' rights and obligations; members' relationship; compliance with laws and regulations; and sustainability and performance management, based on our audits.

We conducted our Audit in accordance with the Institute of Certified Secretaries Governance Audit Standards and Guidelines which conform to global Standards. These standards require that we plan and perform the governance audit to obtain reasonable assurance on the adequacy and effectiveness of the organizations policies, systems, practices and processes. The Audit involved obtaining audit evidence on a sample basis. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinion

In our opinion, the Board has put in place effective, appropriate and adequate governance structures in the Company which are in compliance with the legal and regulatory framework and in line with good governance practices for the interest of stakeholders, and in this regard we issue an unqualified opinion.

CS. Winnie Jumba, GA No. 00064
For Stamford Corporate Services LLP
Date: 29 March 2023

Directors' remuneration report

For the year ended 31 December 2022

The Directors' Remuneration Report sets out the policy that the company has applied to remunerate executive and non-executive Directors. The report has been prepared in accordance with the relevant provisions of the CMA Code of Corporate Governance and the requirements of the Kenyan Companies Act, 2015 and the Companies (General) (Amendment) (No.2) Regulations, 2017.

This report covers the remuneration governance arrangements and the 2022 outcomes for the Executive Directors and Non-Executive Directors.

Shareholder engagement

The Directors remuneration report and policy as at 31 December 2021 was subjected to approval by shareholders during the 43rd Annual General Meeting held on 26 May 2022. The shareholders unanimously approved the Directors remuneration report.

The 2022 Directors Report will be presented to the shareholders for approval during the 44th Annual General Meeting to be held on 25 May 2023.

Fair and responsible remuneration

Our remuneration principles and practices are designed to deliver remuneration that is competitive and fair, incentivises performance, assists in retaining talent, reflects regulatory requirements and is aligned with risks as well as the conduct expectations of the Group. The Board is acutely aware of the need to deliver value to shareholders and to pay for performance and takes this into account when considering management's remuneration.

Fair remuneration is:

- Impartial, free from discrimination, prejudice, favoritism or self-interest;
- Rational (not subject to emotion); and
- Purposeful in addressing unfair remuneration differentials.

Responsible remuneration is:

- Approved within appropriate levels of authority;
- Subject to independent oversight;
- Linked to positive outcomes and value creation; and
- Sustainable.

Achievements in the year

Our reward philosophy underpins our growth strategy, entrepreneurial culture and risk management approach. Its objective is to direct the efforts of our colleagues in delivering our strategy of creating sustainable value for all our stakeholders in a fair and responsible way.

Our reward principles

1. **Attract, retain and engage high calibre individuals** who have the skills, ambition and talent to deliver our strategy.
2. **Support the realisation of our stakeholder aspirations**, with specific focus on rewarding our people for the achievement of our strategy within our risk appetite relative to performance and investor returns.
3. **Align the long-term interests of our Executives and Investors**, by ensuring remuneration outcomes are aligned to the value we create in the short and long term and are transparent. Specific emphasis on increasing longer term incentives for senior and executive employees aligned to market practice.
4. **Pay for performance**, by aligning incentive outcomes to performance and value created. Within this, we apply deferrals, and malus and clawback provisions to ensure effective alignment of risk and reward within the context of Group performance outcomes and to discourage inappropriate behaviour.
5. **Drive our culture of being entrepreneurial**, while taking ownership and accountability for responsible, sustainable business growth and success: We aim to do this by:
   - Ensuring that all colleagues share in the company's success, differentiated on the basis of their contribution, in both the short and long term.
   - Ensuring our people's ethical behaviours, values and adherence to our Risk Management principles are recognised in their performance ratings.
6. **Continuously build confidence and trust** in our reward outcomes through high quality reward governance, disclosure and engagement with our Investors as well as internal transparency and effective communication.
7. **Deliver fair and responsible remuneration**, through regular reviews and disclosure of pay gap metrics, and decisions that influence our most junior employees. Continues emphasis to address differences in reward considering diversity.

Directors' remuneration report

For the year ended 31 December 2022

Performance management

Performance management must be fair and have a strong developmental focus. Each colleague agrees to a set of objectives and measures of success against which they are assessed, taking into account both what is delivered and how it is delivered.

This ensures a balance between the achievement of performance objectives and conduct, culture and values. Rating outcomes are subject to a consistency review process to ensure fairness and alignment with overall business performance.

Performance ratings for our Executive directors are subject to oversight by the Group Remuneration Committee. Individual performance ratings are used as a key input to fixed remuneration, short term and long–term incentives.

Where in a full-year individual performance falls below expectations, colleagues are ineligible to receive short-term incentive awards. We aim to continuously improve our colleagues' performance management experience and to build on the success of performance coaching initiatives to assist with colleague development.

2022 elements of remuneration

The Group Remuneration Committee made no changes to the Group Remuneration Policy in 2022. This remains fit for purpose and maintains its focus on pay for performance in support of sustainable business performance, long-term stakeholder value creation and   ensuring that Absa's reward practices continue to be market related.

In considering the 2022 remuneration outcomes from a policy perspective, we maintained an emphasis on variable, performance- based remuneration as a significant proportion of the total remuneration mix potential for the most senior employees.

We deliver on our growth strategy and create shareholder value by ensuring retention and high performance of top-quality colleagues. We aim to apply a common remuneration framework and structure across the Bank. While targeting a market median position on total remuneration, we aim to pay above the market median for our top performers and critical skills.

Market positioning is reviewed relative to appropriate market benchmarks, to ensure that outliers, either above or below the overall target market positioning receive attention. This is in line with our commitment to be competitive, fair and to improve overall consistency in our remuneration practice.

Remuneration that is not aligned to market levels can be addressed over time by, among other actions, above-average increases in fixed remuneration or slowing or stopping fixed pay progression for above market positioning.

Our remuneration mix comprises fixed remuneration (total guaranteed package), short-term incentives (cash and deferred, where deferral applies) and long-term incentives (where applicable) in the form of performance shares in Absa Group Limited.

Long-term incentives

Long-term incentive awards, in the form of performance shares, may be awarded to eligible senior colleagues based on criteria set by the Group Remuneration Committee and in accordance with the Policy from time to time. These awards are subject to Group performance conditions which apply over a minimum performance period of three financial years, and a continued employment condition. These aim to:

- Align shareholder and executive interests over the long-term through short, medium and long-term actions, with reference to the Absa Group share price and achievement of Group performance targets.
- Align key employees at a senior level who can materially influence the delivery of the Group strategy and those who are key talent

From an implementation perspective, the Group Remuneration Committee extended long-term incentive participation in 2022 to increase coverage for scarce and critical skills. The awards are made as follows:

- Awards that vest subject to the achievement of Group performance targets. This applies to 100% of the award to those whose roles impact strategic delivery.
- For other participants, 50% of the awards vest based on Group performance targets measured over a three-year performance period, with the balance subject to time-based vesting and a minimum individual performance requirement.

Directors' remuneration report (continued)

For the year ended 31 December 2022 (continued)

Implementation of remuneration policy for financial year 2022

a) Executive Directors' remuneration

Executive Directors are remunerated in accordance with the company's staff remuneration policy. They receive remuneration appropriate to their scope of responsibility and contribution to operating and financial performance, taking into account industry norms, external market and country benchmarks.

The determination of the pay is based on the established salary scale. The remuneration of Executive Directors consists of fixed and variable components that are designed to ensure a substantial portion of the remuneration package is linked to the achievement of the company's strategic objectives thereby aligning incentives awarded to the creation of sustainable shareholder value.

Executive Directors' contracts and termination arrangements

Jeremy Awori resigned as Chief Executive and Executive Director on 31 October 2022. The Appointment dates for the executive directors during the year are as follows:

Name	Date of appointment	Type of contract	Notice period
Jeremy Awori	1 February 2013	Permanent	Six (6) months
Yusuf Omari	1 June 2009	Permanent	Three (3) months

Remuneration

The total Executive Directors' remuneration adjustments in 2022 were, majorly, informed by the overall performance and external market competitiveness.

In the year under review, the executive remuneration for the executive directors were as follows compared to 2021.

Jeremy Awori, Managing Director (Resigned 31 October 2022)	**2022 Shs**	2021 Shs
Base Salary	**36 925 791**	35 335 680
Retirement Benefits (Pension Contribution by Employer)	**3 692 579**	3 533 568
Other Employee Benefits	**27 867 427**	27 239 911
Total Fixed Remuneration	**68 485 797**	66 109 159
Cash Bonus Award (Non-deferred)	**-**	24 030 814
Deferred Bonus/ Cash Value Plan (CVP)	**-**	16 636 716
Total Variable Remuneration	**-**	40 667 530
Total Remuneration (Cost to Company)	**68 485 797**	106 776 689

Yusuf Omari, Interim Managing Director	**2022 Shs**	2021 Shs
Base Salary	**30 190 051**	27 545 664
Retirement Benefits (Pension Contribution by Employer)	**3 019 005**	2 754 566
Other Employee Benefits	**7 576 016**	7 576 016
Total Fixed Remuneration	**40 785 072**	37 876 246
Cash Bonus Award (Non-deferred)	**15 876 162**	12 947 049
Deferred Bonus/ Cash Value Plan (CVP)	**8 623 839**	5 552 951
Total Variable Remuneration	**24 500 001**	18 500 000
Total Remuneration (Cost to Company)	**65 285 073**	56 376 246

Directors' remuneration report (continued)

For the year ended 31 December 2022 (continued)

Implementation of remuneration policy for financial year 2022 (continued)

Long-Term Incentive Plans

Executive Directors	Jeremy Awori		Yusuf Omari	
	2022 Shs	2021 Shs	**2022 Shs**	2021 Shs
Share Incentive Plan Retention Award	**-**	-	**7 395 222**	6 747 474
Share Incentive Plan Deferred Award	**-**	6 338 186	**5 923 839**	296 336
Share Incentive Plan Performance Award	**-**	29 621 298	**7 395 222**	6 747 474
Total emoluments	**-**	35 959 484	**20 714 283**	13 791 284

These awards are subject to Group performance conditions which apply over a minimum performance period of three financial years, and a continued employment condition.

b) Non-executive Directors' fees

The non-executive directors' fees are determined through a survey conducted by Absa Group Limited to look at competitive rewards. The same is recommended to the board of Absa Bank Kenya PLC who proceed to approve.

The following is considered when setting the fees for our non-executive directorss

- Benchmark against the fees paid by large listed companies
- General level of inflationary increase applied to our employee
- Time commitment expected from our Directors

Non-executive directors do not have employment contracts with the company and therefore do not participate in any of the company's incentive plans.

The non-executive director's fees are reviewed every two years and revised appropriately. The current fees were effective 1 January 2022 and were approved by the board retrospectively in the meeting held on 31 October 2022.

The Board Chairman is entitled to an annual retainer of Shs 9 025 700 for performing all the duties of the chairman of the board and is not entitled to any additional retainer for his membership of any of the committees of the Company.

Other non-executive directors are entitled to an annual retainer, payable quarterly in arrears, depending on their roles on the board, its committees and on the boards of subsidiary companies, as outlined below:

	2022		2021	
Capacity	**Chairman**	**Member**	Chairman	Member
Board of Directors	**-**	**3 007 100**	-	2 784 320
Audit & Risk Committee	**1 355 200**	**677 600**	1 084 160	542 080
Credit Committee	**935 100**	**467 600**	813 120	406 560
Strategy Committee	**935 100**	**467 600**	813 120	406 560
Corporate Governance, Nominations and Remuneration Committee	**935 100**	**467 600**	813 120	406 560

Directors' remuneration report (continued)

For the year ended 31 December 2022 (continued)

Implementation of remuneration policy for financial year 2022 (continued)

b) Non-executive Directors' fees (continued)

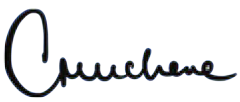
Non-executive Directors	Date of appointment	Total emoluments 2022 Shs	Total emoluments 2021 Shs
Charles Muchene	22 August 2016	**9 025 700**	8 131 200
Laila Macharia	August 2014	**5 189 040**	5 088 160
Patricia Ithau	23 February 2016	**6 484 300**	6 004 020
Louis Otieno	7 March 2018	**6 484 300**	6 004 020
Japheth Olende	7 March 2018	**6 746 800**	6 114 515
Charles Murito	24 June 2020	**3 942 300**	3 597 440
Fulvio Tonelli	1 October 2020	**4 152 300**	3 732 960
Christine Sabwa	9 February 2022	**4 082 727**	-
Kedibone Imathiu	1 November 2022	**921 175**	-
Total		**47 028 642**	38 672 315

Statement regarding compliance with remuneration policy

The Board's responsibility under this policy is oversight and through its Corporate Governance and Nominations Committee, has satisfied itself that the remuneration policy as detailed in the 2021 remuneration report was complied with, and there were no substantial deviations from the policy during the year.

Approval of Remuneration Report by the Board of Directors

This directors' remuneration report was approved by the Board of Directors on 14 March 2023.



Charles Muchene
Chairman


absa

Financial review

Report of the Directors

for the year ended 31 December 2022

The directors submit their report together with the audited financial statements for the year ended 31 December 2022 in accordance with Section 22 of the Banking Act and Section 650(1) of the Kenyan Companies Act 2015 which discloses the state of affairs of Absa Bank Kenya PLC (the "Company"/"Bank") and its subsidiaries (together the "Group").

Company registration number

C.18208

Country of incorporation and domicile

Kenya

Nature of business and principal activities

The Company is registered as a bank under the Banking Act. The Group is engaged in the business of banking and the provision of related services.

Directors

The directors who served during the year and to date of this report are

Charles Muchene	Chairman
Yusuf Omari*	Interim Chief Executive Officer Appointed 1 November 2022
Jeremy Awori*	Resigned 31 October 2022
Dr Laila Macharia	
Patricia Ithau	
Japheth Olende	
Louis Onyango Otieno	
Charles Njenga Murito	
Fulvio Tonelli**	
Christine Sabwa	Appointed 9 February 2022
Kedibone Imathiu**	Appointed 1 November 2022

*Executive directors
**South African

Registered office

Absa Bank Headquarters
Waiyaki Way
PO Box 30120 – 00100
Nairobi

Parent company

Absa Group Limited

Auditor

KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
P.O. Box 40612 - 00100
Nairobi

Company secretary

Loise Gakumo

Dividend

An interim dividend of Shs 0.20 per share (2021: Nil) was paid during the year amounting to Shs. 1 086 million (2021: Nil). The directors recommend the approval of a final dividend for the year ended 31 December 2022 of Shs 1.15 per share amounting to Shs 6 246 million to be paid on or about 25 May 2023.

Report of the Directors (continued)

for the year ended 31 December 2022

Results/Business review

Summary results	Group 2022 Shs'million	Group 2021 Shs'million	Bank 2022 Shs'million	Bank 2021 Shs'million
Profit for the year	**14 587**	10 870	**13 866**	10 298
Total comprehensive income	**12 554**	9 885	**11 845**	9 326
Income tax expense	**(6 262)**	(4 679)	**(5 963)**	(4 428)
Dividends declared and paid				
-Interim declared and paid	**1 086**	-	**1 086**	-
-Final proposed	**6 246**	5 975	**6 246**	5 975
Net assets	**63 613**	56 448	**60 811**	54 355

The financial results of the Group and the Bank are as set out within this document. A summary has been included above. The principle risks and uncertainties facing the Group and Bank as well as the risk management framework are outlined in note 40 of the Consolidated and Bank financial statements.

Authorised and issued share capital

There were no changes to the authorised or issued share capital for the year under review. The share capital is disclosed in note 33.

Events after the reporting date

The directors are not aware of any other events (as defined per IAS 10 Events after the Reporting Period) after the reporting date of 31 December 2022 and the date of authorization of these consolidated annual financial statements.

Auditor

The Company's auditors, KPMG Kenya, have indicated their willingness to continue in office in accordance with Section 721 (2) of the Kenyan Companies Act, 2015 and Section 24 (1) of the Banking Act.

Going concern

The annual financial statements have been prepared based on accounting policies applicable to a going concern.

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.

Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 14 March 2023.

Company Secretary

Loise Gakumo

Statement of Directors' Responsibilities

for the year ended 31 December 2022

The Directors are responsible for the preparation and presentation of the Consolidated and Bank financial statements of Absa Bank Kenya PLC ("the Bank") and its subsidiaries (together, "the Group") set out on pages 117 to 219, which comprise the consolidated and Bank statements of financial position at 31 December 2022 and the consolidated and Bank statements of comprehensive income, consolidated and Bank statements of changes in equity and consolidated and Bank statements of cash flows for the year then ended and the notes to the annual financial statements, including a summary of significant accounting policies and other explanatory information and the information identified as subject to audit in the Directors' Remuneration Report.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the consolidated and separate financial statements in the circumstances, preparation and presentation of the consolidated and separate financial statements in accordance with IFRS Standards as issued by International Accounting Standards Board (IASB) 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 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 which give a true and fair view of the state of affairs of the Group and of the Bank as at the end of the financial year and of the operating results of the Group and Bank for that year. It also requires the Directors to ensure the Group and the Bank keep proper accounting records which disclose with reasonable accuracy the financial position and profit or loss of the Group and the Bank.

The Directors accept responsibility for the annual consolidated and separate financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with IFRS Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial position of the Group and the Bank and of the Group's and Bank's profit or loss.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of consolidated and separate financial statements, as well as adequate systems of internal financial control.

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

Approval of the financial statements

The financial statements, as indicated above, were approved and authorized for issue by the Board of Directors on 14 March 2023.

Charles Muchene
Chairman

Yusuf Omari
Interim Managing Director

Report of the Independent Auditor

to the members of Absa Bank Kenya PLC

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Absa Bank Kenya Plc (the "Group" and the "Bank" set out on pages 117 to 219 , which comprise the consolidated and bank statements of financial position as at 31 December 2022, and the consolidated and bank statements of comprehensive income, the consolidated and bank statements of changes in equity and the consolidated and bank statements of cash flows for the year then ended, the summary of accounting policies and notes to the annual financial statements, .

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Absa Bank Kenya Plc as at 31 December 2022, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS 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 Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters
Expected credit losses on financial assets, including off balance sheet amounts The disclosure associated with expected credit losses on loans and advances to customers is set out in the consolidated and separate financial statements in the following notes: • Note 2.14.4 – Expected credit losses (ECL) on financial assets– IFRS 9 drivers • Note 3.8 – Judgements and estimates, impairment losses on loans and advances • Note 21 – Loans and advances to customers • Note 40.2 – Credit risk

Expected credit losses on loans and advances We identified the audit of expected credit losses (ECL) on loans and advances to customers as a key audit matter which required significant audit effort due to the following: • The Group's and Bank's loans and advances to customers are material to the consolidated and separate financial statements; • There is a high degree of estimation uncertainty and significant judgements and assumptions are applied in estimating modelled ECL on loans and advances to customers; • Significant increase in credit risk ("SICR") – the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's and Bank's ECL calculation as these criteria determine whether a 12 month or lifetime ECL is recorded; • Macroeconomic scenarios – IFRS 9, Financial instruments ("IFRS 9") requires the Group and Bank to measure ECLs on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the forward-looking economic scenarios used as an input to calculate ECL, the probability weightings associated with the scenarios and the complexity of models used to derive the probability weightings. • Model adjustments – Adjustments to the model-driven ECL results are raised by management to address known model limitations or emerging trends as well as risks not captured by models. These adjustments are inherently uncertain and significant management judgement is involved in estimating certain management adjustments. • ECL is determined on an individual basis for stage 3 loans and advances to customers the ECL of which is material and requires significant management judgement in estimating future recoveries: and • The credit risk disclosures incorporate multiple data inputs and management judgement impacting the completeness and accuracy of the disclosures	Our audit effort included the following procedures in addressing the key audit matter: • We obtained an understanding of management's process over credit origination, credit monitoring and credit remediation and evaluated the design, implementation and operating effectiveness of the relevant controls identified within these processes. • We evaluated the appropriateness of the ECL methodologies applied and the ECL disclosures in terms of the requirements of IFRS 9., • We assessed the appropriateness of the Group's and Bank's SICR methodologies and calibrations and with the assistance of our actuarial specialists reperformed stage allocations for a sample of portfolio and individual exposures.

Report of the Independent Auditor (continued)

to the members of Absa Bank Kenya PLC

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

Key Audit Matters (continued)	
Key Audit Matters	**How our audit addressed the Key Audit Matters**
We have focussed on the following areas of significant judgement and estimation which required the use of specialists: **Modelled ECL impairment losses** • A significant portion of ECL is calculated on a modelled basis which incorporates observable data, assumptions, and estimations. The development and execution of these models requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD). • Significant increase in credit risk (SICR) is assessed based on the current risk of default of an account relative to its risk of default at origination. This assessment, and the determination of credit impaired loans and advances to customers, incorporates judgement and estimation by management.	**Modelled ECL impairment losses** • With the assistance of our actuarial specialists, we have assessed the design and implementation of the ECL models, including assessing the significant assumptions applied with reference to the requirements of IFRS 9 and have tested the operating effectiveness of management's ECL modelling controls which support the assumptions used in determining the probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters used in the models. • With the assistance of our actuarial specialists, we have reperformed the model calculations using assumptions as per the model documentation, and independently reperformed the PD, EAD and LGD parameters, to test the accuracy of the ECL calculations. • We assessed the appropriateness of the Group's and Bank's SICR methodologies and model calibrations and have tested the stage allocations including the SICR for a sample of portfolios and individual exposures. The reperformed ECLs were compared to the Group's and Bank's ECL calculations per stage and per portfolio. • We tested the completeness and accuracy of data inputs into the models by tracing a sample of data inputs back to information sourced by management from internal systems.
Estimation and incorporation of multiple forward-looking macroeconomic scenarios and weightings into the ECL calculation • These scenario forecasts are developed by the Group's and Bank's economics unit and require management judgement, given the uncertain macroeconomic environment and the complexity of incorporating these scenario forecasts and probability weightings into the estimation of ECL..	**Estimation and incorporation of multiple forward-looking macroeconomic scenarios and weightings into the ECL calculation** • We tested the design and implementation and operating effectiveness of controls over the approval of updated macroeconomic forecasts used within the ECL models. • With assistance from our actuarial specialists, we have assessed the appropriateness of the economic modelling and incorporation of macroeconomic forecasts into the ECL models and assessed the appropriateness of the macroeconomic scenario forecasts and probability weightings by benchmarking these against external evidence and economic data..
Management adjustments • Where the Group's and Bank's ECL models are not fully calibrated to cater for the impact of the current levels of economic volatility and complexity model adjustments are made which are subject to a high degree of management judgement and bias	**Management adjustments** • We have assessed management's governance processes by understanding management's processes and testing key controls over judgements used to determine management adjustments. • We reperformed a sample of management adjustments to test their accuracy, including testing of accuracy of the inputs used to assess whether the adjustments are in line with the Group's and Bank's methodologies. • Using our understanding of the elements in the macroeconomic information adjustments and applying our own independent data, we assessed management's rationale for the macroeconomic information model adjustments
Stage 3 ECL assessed on an individual basis A significant portion of loans and advances to customers are assessed for recoverability on an individual basis, primarily in the Wholesale portfolios. Significant judgements, estimates and assumptions are applied by management to: • Determine if the loans and advances are credit impaired; • Evaluate the valuation and recoverability of collateral; • Determine the expected future cash flows to be collected; and • Estimate the timing of the future cash flows.	**Stage 3 ECL assessed on an individual basis** We understood management's processes and tested the design, implementation and operating effectiveness of key controls over judgements used to determine whether specific exposures are credit impaired, Our procedures focused on assessing the reasonability of the estimate of the amount and timing of expected future cash flows used in measuring the ECL. We have performed the following for a sample of stage 3 exposures • Where exposures are collateralised, we tested the Group's and Bank's legal right to the collateral by inspecting legal agreements and bond registration information, as well as the reasonability of the valuation of the collateral by evaluating key assumptions against available market and internal information. • Where future cash flows are estimated based on the loan counterparty's enterprise value, we have tested these valuations with reference to available market information and counterparty specific information.

Report of the Independent Auditor (continued)

to the members of Absa Bank Kenya PLC

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

Key Audit Matters (continued)	
Key Audit Matters	**How our audit addressed the Key Audit Matters**
Disclosures related to credit risk • Credit risk disclosures are significant as they rely on material data inputs and disclose management's judgement applied, estimates and assumptions used in determining the ECL, including management adjustments and sensitivity analyses. Due to the extensive nature of these disclosures which are non-routine and very specific to the economic conditions, this required significant audit effort.	**Disclosures related to credit risk** • We evaluated whether the credit risk disclosures are consistent with the ECL information tested which include the ECL data, models, estimates, management adjustments and macroeconomic forecasts and are in terms of the requirements of IFRS 7, Financial instruments disclosures..

Other matter

The consolidated and separate financial statements of Absa Bank Kenya Plc as at and for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those consolidated and separate statements on 31 March 2022

Other information

The Directors are responsible for the other information. The other information comprises the Report of the directors, Directors' remuneration report and Statement of directors' responsibilities but does not include the consolidated and separate financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report and the Integrated Report , which is expected to be made available to us after that date.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 on the other information that we have obtained prior to the date of this auditor's report, 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.

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 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, Directors are responsible for assessing the Group's and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and/or Bank 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 skepticism 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as 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 Bank to cease to continue as a going concern

Report of the Independent Auditor (continued)

to the members of Absa Bank Kenya PLC

Report on 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 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.

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

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that in our opinion:

(i) The information given in the Report of the Directors on pages 110 to 111 is consistent with the consolidated and separate financial statements; and

(ii) The auditable part of the directors' remuneration report on pages 103 to 107 has been prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Joseph Kariuki, Practicing Certificate No. P/2102.

For and on behalf of:
KPMG Kenya
Certified Public Accountants
PO Box 40612 - 00100
Nairobi

Date: 29 March 2023

Consolidated statement of comprehensive income

for the year ended 31 December 2022

	Notes	2022 Shs'million	2021 Shs'million
Interest and similar income	4	**40 853**	32 038
Interest expense and similar charges	5	**(8 538)**	(6 781)
Net interest income		**32 315**	25 257
Fee and commission income	6	**6 739**	7 001
Fee and commission expense	6	**(566)**	(844)
Net fee and commission income		**6 173**	6 157
Net trading income	7	**6 838**	4 784
Other operating income	8	**7**	102
Total income		**45 333**	36 300
Impairment losses on financial instruments	9	**(5 824)**	(4 087)
Net operating income		**39 509**	32 213
Employee benefits	10	**(10 675)**	(9 593)
Infrastructure costs	11	**(1 055)**	(792)
Other operating expenses	12	**(6 047)**	(5 378)
Depreciation of property and equipment	24	**(756)**	(769)
Amortisation of intangible assets	25	**(127)**	(132)
Operating expenses		**(18 660)**	(16 664)
Profit before tax		**20,849**	15 549
Income tax expense	13	**(6 262)**	(4 679)
Profit for the year		**14 587**	10 870
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit liability	27	**11**	(424)
Deferred income tax	28	**(3)**	127
		8	(297)
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value of debt instruments at FVOCI			
Fair value losses arising during the reporting period	18	**(2 916)**	(983)
Deferred income tax	28	**875**	295
		(2 041)	(688)
Total other comprehensive loss for the year, net of tax		**(2 033)**	(985)
Total comprehensive income for the year, net of tax		**12 554**	9 885
Earnings per share			
Basic (Shillings per share)	14	**2.69**	2.00

The notes set out on pages 125 to 219 form an integral part of these consolidated and separate financial statements.

Bank statement of comprehensive income

for the year ended 31 December 2022

	Notes	2022 Shs'million	2021 Shs'million
Interest and similar income	4	**40 808**	31 988
Interest expense and similar charges	5	**(8 677)**	(6 878)
Net interest income		**32 131**	25 110
Fee and commission income	6	**5 473**	5 809
Fee and commission expense	6	**(566)**	(713)
Net fee and commission income		**4 907**	5 096
Net trading income	7	**6 838**	4 784
Other operating income	8	**25**	118
Total income		**43 901**	35 108
Impairment losses on financial instruments	9	**(5 747)**	(4 086)
Net operating income		**38 154**	31 022
Employee benefits	10	**(10 405)**	(9 297)
Infrastructure costs	11	**(1 054)**	(789)
Other operating expenses	12	**(5 994)**	(5 321)
Depreciation of property and equipment	24	**(756)**	(769)
Amortisation of intangible assets	25	**(116)**	(120)
Operating expenses		**(18 325)**	(16 296)
Profit before tax		**19 829**	14 726
Income tax expense	13	**(5 963)**	(4 428)
Profit for the year		**13 866**	10 298
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit liability	27	**11**	(424)
Deferred income tax	28	**(3)**	127
		8	(297)
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value of debt instruments at FVOCI			
Fair value (losses)/gains arising during the reporting period	18	**(2 898)**	(964)
Deferred income tax	28	**869**	289
		(2 029)	(675)
Total other comprehensive loss for the year, net of tax		**(2 021)**	(972)
Total comprehensive income for the year, net of tax		**11 845**	9 326
Earnings per share			
Basic (Shillings per share)	14	**2.55**	1.90

The notes set out on pages 125 to 219 form an integral part of these consolidated and separate financial statements.

Consolidated statement of financial position

as at 31 December 2022

	Notes	2022 Shs'million	2021 Shs'million
Assets			
Cash and balances with Central Bank of Kenya	15	**24 211**	21 009
Loans and advances to banks	19	**4 957**	3 007
Financial assets at fair value through profit or loss	16	**42 905**	44 196
Derivative financial instruments	17	**2 867**	1 120
Financial assets at fair value through other comprehensive income	18	**90 585**	88 380
Due from group companies	45	**8 881**	19 058
Loans and advances to customers	20	**283 579**	234 234
Other assets and prepaid expenses	21	**9 352**	10 050
Current income tax	36	**748**	-
Non-current assets held for sale	23	**47**	47
Property and equipment	24	**2 629**	2 369
Other intangible assets	25	**516**	481
Leasehold land	26	**32**	33
Deferred income tax	28	**5 925**	4 738
Total assets		**477 234**	428 722
Equity and liabilities			
Liabilities			
Deposits from banks	30	**9 018**	4 809
Derivative financial instruments	17	**1 233**	1 344
Due to group companies	45	**60 798**	67 143
Deposits from customers	31	**303 751**	268 717
Borrowings	32	**19 773**	8 505
Current income tax	36	**-**	2 521
Other liabilities and accrued expenses	29	**18 927**	18 872
Retirement benefit liability	27	**121**	363
Total liabilities		**413 621**	372 274
Capital and reserves			
Share capital	33	**2 716**	2 716
Retained earnings	34	**55 980**	47 251
Fair value reserve	34	**(1 551)**	394
Share-based payment reserve	34	**222**	112
Proposed dividends	47	**6 246**	5 975
Total equity		**63 613**	56 448
Total equity and liabilities		**477 234**	428 722

The financial statements on pages 117 to 219 were approved and authorised for issue by the Board of Directors on 14 March 2023 and signed on its behalf by:

Chairman: Charles Muchene

Interim Managing Director: Yusuf Omari

Company Secretary: Loise Gakumo

The notes set out on pages 125 to 219 form an integral part of these consolidated and separate financial statements.

Bank statement of financial position

as at 31 December 2022

	Notes	2022 Shs'million	2021 Shs'million
Assets			
Cash and balances with Central Bank of Kenya	15	**24 211**	21 009
Loans and advances to banks	19	**4 957**	3 007
Financial assets at fair value through profit or loss	16	**42 905**	44 196
Derivative financial instruments	17	**2 867**	1 120
Financial assets at fair value through other comprehensive income	18	**90 193**	87 972
Due from group companies	45	**9 191**	19 385
Loans and advances to customers	20	**283 579**	234 234
Other assets and prepaid expenses	21	**9 385**	9 838
Investment in subsidiaries	22	**463**	463
Current income tax	36	**537**	-
Non-current assets held for sale	23	**47**	47
Property and equipment	24	**2 627**	2 369
Other intangible assets	25	**462**	418
Leasehold land	26	**32**	33
Deferred income tax	28	**5 835**	4 677
Total assets		**477 291**	428 768
Equity and liabilities			
Liabilities			
Deposits from banks	30	**9 018**	4 809
Derivative financial instruments	17	**1 233**	1 344
Due to group companies	45	**60 798**	67 143
Deposits from customers	31	**306 663**	270 737
Borrowings	32	**19 773**	8 505
Current income tax	36	**-**	2 750
Other liabilities and accrued expenses	29	**18 874**	18 762
Retirement benefit liability	27	**121**	363
Total liabilities		**416 480**	374 413
Capital and reserves			
Share capital	33	**2 716**	2 716
Retained earnings	34	**53 164**	45 156
Fair value reserve	34	**(1 537)**	396
Share-based payment reserve	34	**222**	112
Proposed dividends	47	**6 246**	5 975
Total equity		**60 811**	54 355
Total equity and liabilities		**477 291**	428 768

The financial statements on pages 117 to 219 were approved and authorised for issue by the Board of Directors on 14 March 2023 and signed on its behalf by:

Chairman: Charles Muchene

Interim Managing Director: Yusuf Omari

Company Secretary: Loise Gakumo

The notes set out on pages 125 to 219 an integral part of these consolidated and separate financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2022

	Share capital Shs'million	Fair value reserve Shs'million	Share-based payment reserve Shs'million	Retained profit Shs'million	Proposed dividends Shs'million	Total equity Shs'million
Balance at 1 January 2021	2 716	1 082	183	42 524	-	46 505
Profit for the year	-	-	-	10 870	-	10 870
Other comprehensive profit for the year	-	(688)	-	(297)	-	(985)
Total comprehensive income for the year	-	(688)	-	10 573	-	9 885
Recognition of share-based payments	-	-	58	-	-	58
Reclassification to retained profit	-	-	(129)	129	-	-
Proposed final dividend 2021	-	-	-	(5 975)	5 975	-
Balance at 31 December 2021	2 716	394	112	47 251	5 975	56 448
Balance at 1 January 2022	**2 716**	**394**	**112**	**47 251**	**5 975**	**56 448**
Impairment losses on financial assets at fair value through other comprehensive income (Note 2.25.1)	-	**101**	-	-	-	**101**
Profit for the year	**-**	**-**		**14 587**	**-**	**14 587**
Other comprehensive loss for the year	**-**	**(2 041)**	**-**	**8**	**-**	**(2 033)**
Total comprehensive income for the year	**-**	**(2 041)**	**-**	**14 595**	**-**	**12 554**
Net changes in impairment losses on financial assets at fair value through other comprehensive income	**-**	**(5)**	**-**	**-**	**-**	**(5)**
Recognition of share-based payments	**-**	**-**	**110**	**-**	**-**	**110**
Final dividend for 2021 paid	**-**	**-**	**-**	**-**	**(4 509)**	**(4 509)**
Interim dividend paid	**-**	**-**	**-**	**(1 086)**	**-**	**(1 086)**
Dividend waiver	**-**	**-**	**-**	**1 466**	**(1 466)**	**-**
Proposed final dividend 2022	**-**	**-**	**-**	**(6 246)**	**(6 246)**	**-**
Balance at 31 December 2022	**2 716**	**(1 551)**	**222**	**55 980**	**6 246**	**63 613**

The notes set out on pages 125 to 219 form an integral part of these consolidated and separate financial statements.

Bank statement of changes in equity

for the year ended 31 December 2022

	Share capital Shs'million	Fair value reserve Shs'million	Share-based payment reserve Shs'million	Retained profit Shs'million	Proposed dividends Shs'million	Total equity Shs'million
Balance at 1 January 2021	2 716	1 071	183	41 001	-	44 971
Profit for the year	-	-	-	10 298	-	10 298
Other comprehensive profit for the year	-	(675)	-	(297)	-	(972)
Total comprehensive income for the year	-	(675)	-	10 001	-	9 326
Recognition of share-based payments	-	-	58	-	-	58
Reclassification to retained profit			(129)	129	-	-
Proposed final dividend 2021	-	-	-	(5 975)	5 975	-
Balance at 31 December 2021	2 716	396	112	45 156	5 975	54 355
Balance at 1 January 2022	**2 716**	**396**	**112**	**45 156**	**5 975**	**54 355**
Impairment losses on financial assets at fair value through other comprehensive income (Note 2.25.1)	-	**101**	-	-	-	**101**
Profit for the year	**-**	**-**	**-**	**13 866**	**-**	**13 866**
Other comprehensive loss for the year	**-**	**(2 029)**	**-**	**8**	**-**	**(2 021)**
Total comprehensive income for the year	**-**	**(2 029)**	**-**	**13 874**	**-**	**11 845**
Net changes in impairment losses on financial assets at fair value through other comprehensive income	**-**	**(5)**	**-**	**-**	**-**	**(5)**
Recognition of share-based payments	**-**	**-**	**110**	**-**	**-**	**110**
Final dividend for 2021 paid	**-**	**-**	**-**	**-**	**(4 509)**	**(4 509)**
Interim dividend paid	**-**	**-**	**-**	**(1 086)**	**-**	**(1 086)**
Dividend waiver	**-**	**-**	**-**	**1 466**	**(1 466)**	**-**
Proposed final dividend 2022	**-**	**-**	**-**	**(6 246)**	**(6 246)**	**-**
Balance at 31 December 2022	**2 716**	**(1 537)**	**222**	**53 164**	**6 246**	**60 811**

The notes set out on pages 125 to 219 form an integral part of these consolidated and separate financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2022

	Notes	2022 Shs'million	2021 Shs'million
Cash flows from operating activities			
Cash used in operations	35	**(19 937)**	(16 812)
Interest received		**36 732**	28 585
Interest paid		**(6 469)**	(5 353)
Income taxes paid	36	**(9 846)**	(2 289)
Net cash generated from operating activities		**480**	4 131
Cash flows from investing activities			
Purchase of property and equipment	24	**(456)**	(420)
Purchase of intangible assets	25	**(149)**	(201)
Net cash used in investing activities		**(605)**	(621)
Cash flows from financing activities			
Proceeds from borrowings	32	**10 419**	-
Repayments of borrowings	32	**(51)**	-
Repayment of principal portion of lease liabilities	29	**(410)**	(374)
Dividends paid to owners of the company	37	**(5 595)**	-
Net cash generated from /(used in) financing activities		**4 363**	(374)
Net increase in cash and cash equivalents		**4 238**	3 136
Cash and cash equivalents at the beginning of the year		**15 937**	13 129
Effect of exchange rate fluctuations on cash and cash equivalents held		**165**	(328)
Cash and cash equivalents at the end of the year	38	**20 340**	15 937

The notes set out on pages 125 to 219 form an integral part of these consolidated and separate financial statements.

Bank statement of cash flows

for the year ended 31 December 2022

	Notes	2022 Shs'million	2021 Shs'million
Cash flows from operating activities			
Cash used in operations	35	**(19 990)**	(16 956)
Interest received		**36 703**	28 550
Interest paid		**(6 608)**	(5 450)
Income taxes paid	36	**(9 542)**	(2 024)
Net cash generated from operating activities		**563**	4 120
Cash flows from investing activities			
Purchase of property and equipment	24	**(455)**	(420)
Purchase of intangible assets	25	**(147)**	(197)
Investment in subsidiary		**-**	(35)
Net cash used in investing activities		**(602)**	(652)
Cash flows from financing activities			
Proceeds from borrowings	32	**10 419**	-
Repayment of borrowings	32	**(51)**	-
Repayment of principal portion of lease liabilities	29	**(410)**	(374)
Dividends paid to owners of the company	37	**(5 595)**	-
Net cash generated from/(used in) financing activities		**4 363**	(374)
Net increase /(decrease) in cash and cash equivalents		**4 324**	3 094
Cash and cash equivalents at the beginning of the year		**15 851**	13 074
Effect of exchange rate fluctuations on cash and cash equivalents held		**165**	(317)
Cash and cash equivalents at the end of the year	38	**20 340**	15 851

The notes set out on pages 125 to 219 form an integral part of these consolidated and separate financial statements.

Summary of accounting policies

for the year ended 31 December 2022

1. *General information and statement of compliance*

Absa Bank Kenya PLC (the "Bank"/"the Group") provides consumer and corporate banking services. Absa Bank Limited is the ultimate parent of the Group.

Absa Bank Kenya PLC (the "Bank"/"the Group") is a public limited company, incorporated and domiciled in Kenya. Its shares are listed on the Nairobi Securities Exchange. The address of its registered office is:

Absa Bank Headquarters
Waiyaki Way
PO Box 30120-00100
Nairobi

The consolidated and Bank financial statements which comprise the Group and the Bank (collectively, "the Group) and the separate financial statement which comprise the Bank have been prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC) and the requirements of the Kenyan Companies Act, 2015, as amended.

For the Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and profit or loss account by the statement of comprehensive income in these financial statements. There are no other differences between IFRS Standards and the Kenyan Companies Act, 2015.

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Group operates) which is the Kenya Shilling.

The consolidated and separate financial statements are presented in millions of Kenya Shilling (Shs' millions), the presentation currency of the Bank and the Group.

2. *Significant accounting policies*

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

2.1 Adoption of new and revised accounting standards

During the current year, the Group has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2022. For details of the new and revised accounting policies refer to note 49.

2.2 Basis of preparation

The consolidated and separate financial statements have been prepared under the historical cost convention modified to include the fair valuation of particular financial instruments to the extent required or permitted under IFRS Standards as set out in the relevant accounting policies.

The annual financial statements have been prepared based on accounting policies applicable to a going concern.

The Group presents its statement of financial position in order of liquidity based on the Group's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 41.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when IFRS Standard netting criteria has been met.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (together the "Group"). Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Bank can direct those activities
- Contractual arrangements such as call rights, put rights and liquation rights
- Whether the Bank is exposed or has rights, to variable returns from its involvement with the investee and has power to affect the variability of such returns

The Bank will only consider potential voting rights that are substantive when assessing whether it controls another entity. In order for the right to be substantive, the holder must have the practical ability to exercise that right.

Subsidiaries (including controlled structured entities) are fully consolidated from the date on which control is transferred to the Bank. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, NCI and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control. Investment in subsidiaries are accounted for at cost less impairment in the separate financial statements of the Bank.

Income and expenses of subsidiaries acquired or disposed during the year are included in the statement of profit or loss from the effective date of acquisition and up to the effective date of loss of control, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Summary of accounting policies

for the year ended 31 December 2022

2. Significant accounting policies (continued)

2.4 Non-current assets held for sale

Non-current assets (or disposal group's comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and an active programme to locate a buyer and complete the plan must have been initiated. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before classification as held for sale, the assets (or components of a disposal group) are re-measured in accordance with the Group's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount or fair value, less cost to sell. Any impairment loss on a disposal group is first allocated to reduce goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, investment properties, insurance assets and employee benefit assets, which continue to be measured in accordance with the Group'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 until finally sold. Property, equipment and intangible assets, once classified as held for sale, are not depreciated or amortised.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.5 Revenue recognition

Net interest income

Effective interest on loans and advances at amortised cost and debt instruments at fair value through other comprehensive income, as well as the interest expense on financial liabilities held at amortised cost, are calculated using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset. The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. This results in the allocation of interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest rate method requires the Group to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), there are no individual estimates that are material to the results or financial position.

Interest income/expense on all trading financial assets/liabilities is recognised as part of the fair value change in net trading income.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial assets.

When a financial asset becomes credit-impaired and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI financial asset.

Net trading income

Trading positions are held at fair value and the resulting gains and losses are included in profit or loss, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Income arises from both the sale and purchase of trading positions, margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables.

Gains or losses on assets or liabilities reported in the trading portfolio are included in profit or loss under net trading income together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Summary of accounting policies

for the year ended 31 December 2022

2. *Significant accounting policies (continued)*

Net fee and commission income

Net fee and commission income is calculated by subtracting fee and commission charges from fee and commission income. Fee and commission income relates to revenue earned for the rendering of services and is recognised net of any trade discounts, volume rebates and amounts received on behalf of third parties, such as value added taxes. When the Bank is acting as an agent, amounts collected on behalf of the principal are not income. Only the net commission retained by the Bank is, in this case, recognised as income.

Fees and commission income earned in respect of services mainly relates to transaction charges and are recognised at a point in time when the performance obligation is discharged.

Under IFRS 15 Revenue from Contracts with Customers, entities are required to recognise revenue in a manner which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Fees and commission income earned in respect of services rendered are recognised on an accrual basis when the service is rendered. Fees earned on the execution of a performance obligation are recognised when the performance obligation act has been completed.

Fee and commission expenses are expenses which are connected to the generation of fee and commission income.

2.6 Foreign currencies

In preparing the consolidated annual financial statements, transactions in currencies other than the functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Differences arising on settlement or translation of monetary items are recognised in profit or loss. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

2.7 Employee benefits

Staff costs

Short-term employee benefits, including salaries, accrued performance costs, salary deductions and taxes are recognised over the reporting period in which the employees provide the services to which the payments relate. Performance costs are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably and are recognised on an undiscounted basis over the period of service that employees are required to work to qualify for the services.

Defined benefit scheme

The Group recognises its obligation (determined using the projected unit credit method) to members of the scheme at the reporting date, less the fair value of the scheme assets. Scheme assets are stated at fair value as at the reporting date. Costs arising from regular pension cost, interest on net defined benefit liability or asset, past service cost settlements or contributions to the plan are recognised in profit or loss.

All actuarial gains and losses are recognised immediately through OCI in order for the net defined benefit scheme asset or liability recognised in the statement of financial position to reflect the full value of the plan surplus or deficit, taking into account the asset ceiling.

Re-measurements comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

Interest is calculated by applying the discount rate to the opening net defined liability or asset, taking into account any changes in the net defined liability or asset during the period as a result of contribution and benefit payments.

Gains and losses on curtailments are recognised when the curtailment occurs, which may be when a demonstrable commitment to a reduction in benefits, or reduction in eligible employees, occurs. The gain or loss comprises any change in the present value of the obligation and the fair value of the assets. Where a scheme's assets exceed its obligation, an asset is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions.

Defined contribution scheme

The Group operates a defined contribution scheme for majority of its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by contribution from both the Group and employees. The Group and its employees also contribute to the National Social Security Fund as determined by local statutes.

The Group recognises contributions due in respect of the reporting period in profit or loss. Any contributions unpaid at the reporting date are included as a liability.

Summary of accounting policies

for the year ended 31 December 2022

2. Significant accounting policies (continued)

2.8 Share-based payments

The Group operates equity-settled and cash-settled share-based payment plans.

Employee services settled in equity instruments

The cost of the employee services received in respect of the shares or share options granted is recognised in profit or loss, with a corresponding increase in equity, over the period that employees provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

The number of shares and options expected to vest takes into account the likelihood that performance and service conditions included in the terms of the awards will be met. Failure to meet non-vesting condition is treated as a cancellation, resulting in an acceleration of recognition of the cost of the employee services.

The fair value of shares is the market price ruling on the grant date, in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Market conditions that must be met in order for the award to vest are also reflected in the fair value of the award, as are any other non-vesting conditions.

Employee services settled in cash

The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in profit or loss. No amount is recognised for services received if the awards granted do not vest because of a failure to satisfy a vesting condition.

2.9 Taxation

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

Current taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Income tax payable on taxable profits (“current taxation”) is recognised as an expense in the reporting period in which the profits arise.

Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior reporting period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred taxation

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred income tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred income tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

Summary of accounting policies

for the year ended 31 December 2022

2. Significant accounting policies (continued)

2.9 Taxation (continued)

Current and deferred tax

Current and deferred tax movements are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the asset or expense; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Levies and similar charges

The Group recognises the liability arising from levies and similar charges when it becomes legally enforceable (i.e., when the obligating event arises) which is on 31 December each year.

2.10 Property and equipment

Property, plant and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in an enhancement to the asset. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Land and buildings comprise mainly of branches and offices. Freehold land is not depreciated.

Useful lives of property and equipment	Useful lives Years
Property and equipment	
Buildings;	
Leases over 50 years	50
Leases under 50 years	Over the remaining life
Rented premises	6
Freehold buildings	50
Leasehold improvements	Over the remaining lease period
Fixtures, fittings and equipment	5
Motor vehicles	5

Summary of accounting policies

for the year ended 31 December 2022

2. Significant accounting policies (continued)

2.11 Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets	
Flexcube (Core banking application)	10
Other software	5

De-recognition of intangible assets

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

2.12 Impairment of tangible and intangible assets (excluding goodwill)

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.13 Provisions, contingent liabilities and undrawn commitments

Provisions

Provisions for legal claims or restructuring are recognised when: the Group 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. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingent liabilities

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

Undrawn commitments

Under IFRS 9, the ECL calculated on financial guarantees and letters of credit are presented as provisions on the statement of financial position. In the case of undrawn loan commitments, the inherent credit risk is managed and monitored by the Bank together with the drawn component as a single exposure. The EAD on the entire facility is therefore used to calculate the cumulative ECL. As a result, the total ECL is recognised in the ECL allowance in respect of the financial asset unless the total allowance exceeds the gross carrying amount of the financial asset. If this is the case, the excess ECL is recognised as a provision on the face of the statement of financial position.

Summary of accounting policies

for the year ended 31 December 2022

2. Significant accounting policies (continued)

2.14 Financial instruments

2.14.1 Initial recognition of financial assets and financial liabilities

The Group recognises financial assets and liabilities when it becomes party to the terms of the contract, which is the trade date or the settlement date. All financial instruments are measured initially at fair value plus/minus transaction costs, except in the case of financial assets and liabilities recorded at fair value through profit or loss, where transaction costs are expensed upfront.

2.14.2 Day one profits or losses

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument or is based on a valuation technique whose inputs include only data from observable markets then the instrument should be recognised at the fair value derived from such observable market data. When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net trading income.

For valuations that have made use of significant unobservable inputs, the difference between the model valuation and the initial transaction price (Day one profit) is recognised in profit or loss either on a straight-line basis over the term of the transaction, or over the reporting period until all model inputs will become observable where appropriate or released in full when previously unobservable inputs become observable.

2.14.3 *Classification and measurement of financial instruments*

On initial recognition, the Group classifies its financial assets into the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income; or
- Fair value through profit or loss;

The classification and subsequent measurement of financial assets depends on:

- The business model within which the financial assets are managed; and
- The contractual cash flow characteristics of the asset (that is, whether the cash flows represent solely payments of principal and interest).

Business model assessment:

The business model reflects how the Group manages the financial assets in order to generate cash flows and returns. The Group assesses the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The factors considered in determining the business model include (i) how the financial assets' performance is evaluated and reported to management, (ii) how the risks within the portfolio are assessed and managed and (iii) the frequency, volume, timing for past sales, sales expectations in future periods, and the reasons for such sales. The Group reclassifies debt instruments when, and only when, the business model for managing those assets changes. Such changes are highly unlikely and therefore expected to be very infrequent.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI):

In assessing whether the contractual cash flows have SPPI characteristics, the Group considers whether the cash flows are consistent with a basic lending arrangement. That is, the contractual cash flows recovered must represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest typically includes only consideration for the time value of money and credit risk but may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, together with a profit margin. Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement, the cash flows would not be considered SPPI and the assets would be mandatorily measured at fair value through profit or loss, as described below. In making the assessment, the Group considers, inter alia, contingent events that would change the amount and timing of cash flows, prepayment and extension terms, leverage features, 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. tenor mismatch). Contractual cash flows are assessed against the SPPI test in the currency in which the financial asset is denominated.

2.14.3.1 *Debt Instruments*

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. The Group classifies its debt instruments as follows:

- Amortised cost - Financial assets are classified within this measurement category if they are held within a portfolio whose primary objective is the collection of contractual cash flows, where the contractual cash flows on the instrument are SPPI, and that are not designated at fair value through profit or loss. These financial assets are subsequently measured at amortised cost where interest is recognised as effective interest within interest and similar income using the effective interest rate method. The carrying amount is adjusted by the cumulative expected credit losses recognised.
- Fair value through other comprehensive income - This classification applies to financial assets which meet the SPPI test, and are held within a portfolio whose objectives include both the collection of contractual cash flows and the selling of financial assets. These financial assets are subsequently measured at fair value with movements in the fair value recognised in other comprehensive income, with the exception of interest income, expected credit losses and foreign exchange gains and losses that are recognised within profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to Net trading income in profit or loss. Interest income from these financial assets is included as effective interest within Interest and similar income using the effective interest rate method.

Summary of accounting policies

for the year ended 31 December 2022

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.3 Classification and measurement of financial instruments (continued)

2.14.3.1 Debt Instruments (continued)

- Fair value through profit or loss - Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are mandatorily measured at fair value through profit or loss. Gains and losses on these instruments are recognised in net trading income in profit or loss. The Group may also irrevocably designate financial assets that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income, as at fair value through profit or loss, if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise. These will be subsequently measured at fair value through profit or loss with gains and losses recognised as gains and losses from banking and trading activities or gains and losses from investment activities in profit or loss.

2.14.3.2 *Financial liabilities*

Most financial liabilities are held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the liability. Most financial liabilities are held at amortised cost, in accordance with the effective interest rate method.

Financial liabilities classified as held for trading are subsequently measured at fair value through profit or loss, with changes in fair value being recognised in profit or loss.

A financial liability may be designated at fair value through profit or loss if (i) measuring the instrument at fair value eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (ii) if the instrument belongs to a group of financial assets or financial liabilities that are managed on a fair value basis, in accordance with a documented risk management or investment strategy. Own credit gains or losses arising from the valuation of financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income and are not subsequently recognised in profit or loss.

2.14.3.3 *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.

Summary of accounting policies

for the year ended 31 December 2022

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.3 Classification and measurement of financial instruments (continued)

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:

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	Financial 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		

2.14.4 Expected credit losses on financial assets

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.

The Group uses a mixed approach to impairment where parameters are modelled at an individual financial instrument level or on a portfolio basis when they are only evident at this higher level. A collective approach will only be carried out when financial instruments share similar risk characteristics, which could include factors such as instrument type, collateral type, industry, geography and credit risk ratings. Credit losses are the present value of the difference between:

- all contractual cash flows that are due to an entity in accordance with the contract; and
- all the cash flows that the entity expects to receive.

Summary of accounting policies

for the year ended 31 December 2022

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.4 *Expected credit losses on financial assets (continued)*

Three-stage approach to ECL

IFRS 9 requires entities to recognise ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (hereafter referred to as 12-month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (hereafter referred to as lifetime ECL). In determining the forecast credit losses over the duration of an exposure, recoveries expected to be received post the designated point of write-off are excluded.

Interest is calculated on stage 1 and stage 2 assets based on the gross carrying amount of the asset, whilst interest income on stage 3 assets is calculated based on the net carrying value (that is, net of the credit allowance). The stage allocation is required to be performed as follows:

Stage 1	This stage comprises exposures which are performing in line with the Group's credit expectations as at the date of origination. That is to say, the credit exposures which are assigned to stage 1 have not experienced a significant increase in credit risk since the date of initial recognition. Financial assets that are not purchased or originated with a credit impaired status are required to be classified on initial recognition within stage 1. Exposures which were previously classified within stage 2 or stage 3, may also cure back to stage 1 in line with the Group's credit risk management cure criteria. Whilst the standard does permit an accounting policy election to classify low credit risk assets within stage 1, such election has not been made by the Group.
Stage 2	Exposures are required to be classified within stage 2 when a significant increase in credit risk is observed, although the exposure is not yet credit impaired. The assessment of whether an exposure should be transferred from stage 1 to stage 2, is a relative measure, where the credit risk at the reporting date is compared to the risk that existed at initial recognition. The factors which trigger a reclassification from stage 1 to stage 2 have been defined so as to meet the specific requirements of IFRS 9, and in order to align with the Group's credit risk management practices. These factors have been set out in note 40.2. Stage 2 assets are considered to be cured (i.e. reclassified back into stage 1), when there is no longer evidence of a significant increase in credit risk, and in accordance with the Group's credit risk management cure criteria. The definition of high risk is, from a credit management perspective, central to controlling the flow of exposures back to stage 1 and gives effect to any cure periods deemed necessary. For these exposures lifetime expected credit losses should be recognised (i.e. credit losses from default events that are possible over the life of the instrument). The Group will assess whether a significant increase in credit risk has occurred based on (i) qualitative drivers including being marked as high risk or reflected on management's watch list; and (ii) quantitative drivers such as the change in the asset's cumulative weighted average lifetime probability of default (PD). Any exposure that is more than 30 days past due will also be included in this stage.
Stage 3	Credit exposures are classified within stage 3 when they are credit impaired, which is defined in alignment to the regulatory definition of default which includes unlikeliness to pay indicators as well as any assets that are more than 90 days past due. An instrument is credit impaired when there is objective evidence of impairment at the reporting date. Purchased or originated credit impaired lending facilities are classified on origination within stage 3. Defaulted assets are considered to be cured once the original event triggering default no longer applies, and the defined probation period (that is, the required consecutive months of performance) has been met.

Expected credit loss calculation

The measurement of expected credit losses must reflect:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money (represented by the effective interest rate); and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

Expected credit losses comprise the unbiased probability weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. Expected credit losses are calculated (for both 12 month-ECL and lifetime losses) as a function of the exposure at default (EAD); PD and loss given default (LGD). These terms are interpreted as follows per the requirements of IFRS 9:

- EAD is the estimated amount at risk in the event of a default (before any recoveries) including behavioural expectation of limit usage by customers in the various stages of credit risk.
- PD is the probability of default at a particular point in time, which may be calculated, based on the defaults that are possible to occur within the next 12 months; or over the remaining life; depending on the stage allocation of the exposure.
- LGD is the difference between the contractual cash flows due and the cash flows expected to be received, discounted to the reporting date at the effective interest rate. The expectation of cash flows take into account cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The estimate reflects the amount and timing of cash flows expected from the enforcement of collateral less the costs of obtaining and selling the collateral. The collection of any cash flows expected beyond the contractual maturity of the contract is also included.

Summary of accounting policies

for the year ended 31 December 2022

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.4 *Expected credit losses on financial assets (continued)*

Lifetime of financial instruments

For exposures in stage 2 and stage 3, the maximum lifetime over which expected credit losses should be measured, is the maximum contractual period over which the Group is exposed to credit risk. The Group estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. In rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the Group use the remaining contractual term of the financial instrument.

Certain credit exposures include both a drawn and an undrawn component and the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to the contractual notice period. In this case, expected credit losses are measured over the period that the Group is exposed to credit risk, even if that period extends beyond the maximum contractual period. Within the Group, this applies to overdrafts, credit cards and other revolving products.

These contracts are cancellable at very short notice and they have no fixed term but credit may continue to be extended for a longer period and may only be withdrawn after the credit risk of the borrower increases, which could be too late to prevent losses. For these types of products the expected life is based on the behavioural life, i.e. the period over which there is exposure to credit risk which is not expected to be mitigated by credit actions (e.g. limit decreases) even though the contract permits immediate limit decrease.

Forward looking information

Forward-looking information is factored into the measurement of expected losses through the use of multiple expected macro-economic scenarios that are either reflected in estimates of PD and LGD for material portfolios; or adjusted through expert credit judgement where the effects could not be statistically modelled.

Write -off

The gross carrying amount of a financial asset shall be directly reduced (that is, written off) when the entity has no reasonable expectations of recovering it in its entirety, or a portion thereof. A write-off constitutes a de-recognition event for accounting purposes. Depending on the nature of the account, balances are written off when:

- There has been less than one qualifying payment received within the last 12 months; or
- It is no longer economically viable to keep the debt on the statement of financial position.

A qualifying payment, for use in the write-off assessment, is defined as the minimum monthly contractual payment due.

Indicators which suggest that an account is not economically viable to retain on the statement of financial position are as follows (but do not represent an exhaustive list):

- The exposure is unsecured, i.e. there is no tangible security the Group can claim against (excluding suretyships);
- The debt has prescribed;
- The exposure would attract reputational risk should the Group pursue further legal action due to the valuation/exposure ratio, for example where the exposure is low and the valuation is very high in relation to the low exposure; and
- Where the cost to recover is high in relation to the valuation of the asset, for example legal, realisation and safe-guarding cost and rates and taxes.

Under IFRS 9, the Group applies the write-off assumptions consistently at both an individual account level and on a collective modelling basis. This means that the Group's LGD model includes only the present value of forecast recoveries on a pool of loans up until the designated point of write-off. Recoveries of amounts previously written off are recognised as an ECL gain in the statement of comprehensive income as and when the cash is received.

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.

2.14.5 De-recognition of financial instruments

De-recognition of financial assets

In the course of its normal banking activities, the Group makes transfers of financial assets, either legally (where legal rights to the cash flows from the asset are passed to the counterparty) or beneficially (where the Group retains the rights to the cash flows but assumes a responsibility to transfer them to the counterparty). Depending on the nature of the transaction, this may result in derecognition of the assets in their entirety, partial derecognition or no derecognition of the assets subject to the transfer.

Full derecognition only occurs when the rights to receive cash flows from the asset have been discharged, cancelled or have expired, or the Group transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, the Group may retain an interest in it (continuing involvement) requiring the Group to repurchase it in certain circumstances for other than its fair value on that date.

Summary of accounting policies

for the year ended 31 December 2022

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.5 De-recognition of financial instruments *(continued)*

De-recognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

On derecognition of a financial instrument, any difference between the carrying amount thereof and the consideration received is recognised in profit or loss.

2.14.6 Modification of financial assets and financial liabilities

Modification of financial assets

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

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

- Contractual modifications on commercial terms are treated as a new transaction resulting in derecognition of the original financial asset and the recognition of a 'new' financial asset. Any difference between the carrying amount of the derecognised asset and the fair value of the new asset is recognised in profit or loss.
- When the Group modifies the contractual conditions due to financial difficulties of the borrower, the asset is not derecognised unless the terms of the contract are substantively changed (such as the inclusion of an equity participation or a substantial change in counterparty). If the asset is not substantially modified, then the gross carrying amount of the financial asset is recalculated to be the present value of the modified cash flows discounted at the original EIR and any gain or loss is recognised in profit or loss as part of the total impairment loss.

Modification of financial liabilities

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

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

amount of the liability and are amortised over the remaining term of the modified liability.

2.14.7 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially recognised in the financial statements at fair value at the date that the guarantee was given.

Other than where the fair value option is applied subsequent to initial recognition, the entity's liabilities under such contracts are measured at the higher of the initial measurement, less amortisation calculated to recognise in profit or loss any fee income earned over the reporting period, and the amount of the loss allowance expected from the guarantee at the reporting date. Any increase in the liability relating to guarantees is recognised in profit or loss. For financial guarantee contracts the cash shortfalls are future payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity would expect to receive from the holder, the debtor or any other party.

2.14.8 Loan commitments

The Group enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Group subject to notice conditions.

Loan commitments are measured with reference to the quantum of ECL required to be recognised. In the case of undrawn loan commitments, the inherent credit risk is managed and monitored by the Bank together with the drawn component as a single exposure. The EAD on the entire facility is therefore used to calculate the cumulative ECL. As a result, the total ECL is recognised in the ECL allowance in respect of the financial asset unless the total allowance exceeds the gross carrying amount of the financial asset. If this is the case, the excess ECL is recognised as a provision on the face of the statement of financial position.

Summary of accounting policies

for the year ended 31 December 2022

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.9 Credit enhancement: Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, receivables, other non-financial assets and credit enhancements such as netting agreements.

Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a regular basis.

To the extent possible, the Bank uses active market data for valuing both financial and non-financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral are valued based on data provided by third parties and other independent sources.

2.15 Letters of credit acceptances

Letters of credit acceptances arise in two ways:

(i) Issuing bank

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

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

(ii) Confirming bank

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

2.16 Fair value

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

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

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

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

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

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

If the market for an asset or liability is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants. Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market related discount rate at the reporting date for an asset or liability with similar terms and conditions.

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

Summary of accounting policies

for the year ended 31 December 2022

2. Significant accounting policies (continued)

2.16 Fair value (continued)

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

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

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

2.17 Ordinary share capital

Proceeds are included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when declared by the board.

2.18 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.

2.19 Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises cash on hand, balances with Central Bank of Kenya (excluding restricted balances – cash reserve ratio) and deposits due from banking institutions. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. Cash and cash equivalents are measured at amortised cost.

2.20 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Group and the number of basic weighted average number of ordinary shares excluding treasury shares held in employee benefit trusts or held for trading. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held.

2.21 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing the performance of the operating segments has been identified as the Country Management Committee that makes strategic decisions.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance. In accordance with IFRS 8, the Group has the following business segments: Consumer banking and Corporate banking.

2.22 Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared, in accordance with the Kenyan Companies Act, 2015.

Summary of accounting policies

for the year ended 31 December 2022

2. Significant accounting policies (continued)

2.23 Leases

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

(a) The Group is the lessee

Any revisions to in-substance fixed lease payments, reassessment or lease modifications will be reflected by re-measuring the carrying amount. Interest is recognised within net interest income and the lease liability is included within "other liabilities" in the statement of financial position.

The lease payments in relation to short term leases (leases with a lease term of 12 months or less at commencement date) and leases in which the underlying asset is of low value are recognised as an expense on a straight line basis over the lease term.

(b) The Group is the lessor

Finance lease

A finance lease is a lease which confers substantially all the risks and rewards of the leased assets on the lessee. Where the Group is the lessor, the leased asset is not held on the statement of financial position; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Finance income on the receivable is allocated over the lease term on a systematic basis so as to reflect a constant periodic rate of return on the lessor's net investment in the finance lease.

Operating leases

An operating lease is a lease in which substantially all of the risks and rewards of the leased assets remain with the lessor. Where the Group is the lessor, lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. The Group recognises leased assets on the statement of financial position within property and equipment.

2.24 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The Group did not have any qualifying assets during the year.

2.25 Reporting changes overview

The financial reporting changes that have had an impact on the Group's results for the comparative periods ended 31 December 2022 include:

2.25.1 Reclassification changes

During 2022, the Group rectified an error by modifying the classification of loss allowance on financial assets at fair value through other comprehensive income from initially being shown through profit and loss of an amount Shs 101 million. This is in accordance to guidance by IFRS 9.

No reclassification has been made in relation to comparative financial information as the amount of Shs 96 million was deemed to be immaterial.

2.25.2 Reclassification changes

The IFRS Interpretation Committee published an agenda decision on 'Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7 Statement of Cash flows) – Agenda Paper 3' in April 2022. Based on the afore-mentioned agenda decision, the Statement of Cash flows of the Group and Bank has been reviewed and it was concluded that the mandatory reserves with the Central Bank of Kenya should be included as 'Cash and cash equivalents' in the Statement of Cash flows.

As required by IAS 8, the afore-mentioned changes have been applied retrospectively to all prior periods affected. These changes have no impact on the Statement of Financial Position, Statement of comprehensive income or the overall net asset position of the Bank/Group.

		As previously reported	Change in accounting policy adjustment	Restated balance
Group	Cash and cash equivalents	12 596	3 341	15 937
Bank	Cash and cash equivalents	12 510	3 341	15 851

3. Judgements and estimates

In the preparation of the annual financial statements, management is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates, which may be material to the financial statements within the next financial period.

Judgements made by management that could have a significant effect on the amounts recognised in the financial statements include:

Summary of accounting policies

for the year ended 31 December 2022

3. Judgements and estimates (continued)

3.1 Fair value of financial instruments

The 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. Fair values should be first calculated with reference to observable inputs where these are available in the market. Only where these are unavailable should fair value techniques be applied which employ less observable inputs.

Unobservable inputs may only be used where observable inputs or less observable inputs are unavailable. IFRS 13 Fair Value Measurement (IFRS 13) does not mandate the use of a particular valuation technique but rather sets out a principle requiring an entity to determine a valuation technique that is appropriate in the circumstances for which sufficient data is available and for which the use of relevant observable inputs can be maximized. Where management is required to place greater reliance on unobservable inputs, the fair values may be more sensitive to assumption changes and different valuation methodologies that may be applied. For this reason, there is a direct correlation between the extent of disclosures required by IFRS 13 and the degree to which data applied in the valuation is unobservable.

Valuation inputs

IFRS 13 requires an entity to classify fair values according to a hierarchy that reflects the significance of observable market inputs. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities, and the lowest priority to unobservable inputs. In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input which is considered to be significant to the entire measurement. The three levels of the fair value hierarchy are specifically defined as follows:

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.

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.

Financial assets and financial liabilities

The Group has an established control framework with respect to the measurement of fair values. The framework includes a Traded Risk and Valuation Committee and an Independent Valuation Control team (IVC), which is independent from the front office. The Traded Risk and Valuation Committee, which comprises representatives from senior management, will formally approve valuation policies and any changes to valuation methodologies. The Traded Risk and Valuation Committee is responsible for overseeing the valuation control process and will therefore consider the appropriateness of valuation techniques and inputs for fair value measurement.

The IVC independently verifies the results of trading and investment operations and all significant fair value measurements. They source independent data from independent external parties, as well as internal risk areas when performing independent price verification for all financial instruments held at fair value. They also assess and document the inputs obtained from independent external sources to measure the fair value which supports conclusions that valuations are performed in accordance with IFRS Standard and internal valuation policies.

Judgmental inputs on valuation of principal instruments

The following summary sets out the principal instruments whose valuation may involve judgmental inputs:

Debt securities and treasury and other eligible bills

These instruments are valued based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined with reference to quoted market prices for similar instruments or, in the case of certain instruments, valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Derivatives

Derivative contracts can be exchange-traded or traded over the counter (OTC). OTC derivative contracts include forward, swap and option contracts related to interest rates, bonds, foreign currencies, credit spreads, equity prices and commodity prices or indices on these instruments. Fair values of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and pricing models.

Loans and advances

The fair value of loans and advances is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

Summary of accounting policies

for the year ended 31 December 2022

3. Judgements and estimates (continued)

3.1 Fair value of financial instruments (continued)

Fair value adjustments

The main valuation adjustments required to arrive at a fair value are described as follows:

Uncollateralized derivative adjustments

A fair value adjustment is incorporated into uncollateralized derivative valuations to reflect the impact on fair value of counterparty credit risk, as well as the cost of funding across all asset classes.

Bid-offer valuation adjustments

For assets and liabilities where the Group is not a market maker, mid-prices are adjusted to bid and offer prices respectively unless the relevant mid-prices are reflective of the appropriate exit price as a practical expedient given the nature of the underlying instruments. Bid-offer adjustments reflect expected close out strategy and, for derivatives, the fact that they are managed on a portfolio basis. The methodology for determining the bid-offer adjustment for a derivative portfolio will generally involve netting between long and short positions and the bucketing of risk by strike and term in accordance with the hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the Group is a market maker and has the ability to transact at, or better than, mid-price (which is the case for certain equity, bond and vanilla derivative markets), the mid-price is used.

Model valuation adjustments

Valuation models are reviewed under the Group's model governance framework. This process identifies the assumptions used and any model limitations (for example, if the model does not incorporate volatility skew). Where necessary, fair value adjustments will be applied to take these factors into account. Model valuation adjustments are dependent on the size of the portfolio, complexity of the model, whether the model is market standard and to what extent it incorporates all known risk factors. All models and model valuation adjustments are subject to review at least annually.

The fair value hierarchy for these financial instruments is shown in Note 42.

3.2 Effective interest rate

The Bank's EIR method recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to the base rate and other fee income/expense that are integral parts of the instrument. Note 2.5 and 4 disclose the interest income recognised using the EIR method.

3.3 Provisions

In terms of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, a provision is recognised when the Group has a present obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligation. Further, a reliable estimate of the amount of the obligation is required to be made. Various assumptions are therefore required in order to determine if a provision is required to be recognised, and further, the carrying amount thereof. With regards to the assessment of matters of a significant nature, including potential litigation and claims, management relies on the advice of the Group's legal counsel.

Note 46 discloses the recognition and measurement of contingencies.

3.4 Share-based payments

The initial fair value of awards is determined at grant date and is measured after taking into account all terms and conditions of the share incentive scheme, excluding non-market vesting conditions. In the case of certain schemes, options are granted to employees with a zero-strike price. In this case the Group may consider the share price on the grant date to be the best indication of the grant date fair value. Where management determines this valuation approach to be less appropriate, based on the specific terms and conditions, then a Black Scholes option pricing model is applied. Significant inputs into this pricing model include the risk-free discount rate, share price volatility, as well as an expectation of future dividends.

The cumulative expense recognised at each reporting date will reflect the extent to which the vesting period has expired as well as the Group's best estimate of the number of equity instruments that will ultimately vest. A key assumption applied is staff turnover and expected forfeitures. Management calibrates this assumption based on historical data.

In the case of cash-settled share-based payment schemes, where fair value is required to be determined at each reporting date, a consistent fair value methodology is applied. The fair value of the awards at each reporting date will impact the expense recognised over each reporting period.

Note 34 includes details of the Group's share awards. Refer to note 34.3 for the carrying amount of liabilities arising from cash-settled arrangements.

Summary of accounting policies

for the year ended 31 December 2022

3. Judgements and estimates (continued)

3.5 Income taxes

The Group is subject to income taxes and the calculation of the Group's tax charge and liabilities for income taxes necessarily involves a degree of estimation and judgement. There are many transactions and calculations for which the ultimate tax treatment is uncertain or in respect of which the relevant tax authority may indicate disagreement with the Group's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority.

The Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes tax liabilities, where appropriate, on the basis of amounts expected to be paid to the tax authorities. The carrying amount of any resulting liabilities will be sensitive to the manner in which tax matters are expected to be resolved, and the stage of negotiations or discussion with the relevant tax authority. There may be significant uncertainty around the final outcome of tax proceedings, which in many instances, will only be concluded after a number of years. Management estimates are informed by a number of factors including, inter alia, the progress made in discussions or negotiations with the tax authority, the advice of expert legal counsel, precedent set by the outcome of any previous claims, as well as the nature of the relevant tax environment.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made. These risks are managed in accordance with the Group's Tax Risk Framework.

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Management's judgement surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable differences and ongoing developments will determine the recognition of deferred tax. The most significant management assumption in determining the deferred tax asset to be recognised is the forecasts used to support the probability assessment that sufficient taxable profits will be generated by the entities in the Group in order to utilise the deferred tax assets in the medium term. Refer to Note 13, 28, 36 and 46.3 which further disclose the tax exposures of the Group.

3.6 Retirement benefits

The valuation of and contribution towards the defined benefit pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. The year-end balances of subsidiaries' post-retirement benefit obligations are also affected by the closing foreign currency exchange rates.

Due to the long-term nature of the plan, such estimates are subject to significant uncertainty.

Exposure to actuarial risks

The defined benefit fund exposes the Group to the risk that the benefits promised in the fund cost more than the accumulated assets set aside to meet such benefits, and ultimately will require additional funding from the Bank (or its subsidiaries).

This risk can be categorised into a number of actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk

The actuarial funding valuation make assumptions about the returns that may be available on invested assets. If the return on pension plan assets is below this rate, it may lead to a strain on the fund, which over time, may result in a pension plan deficit. Typically, the fund has a relatively balanced investment in equity securities, debt securities, cash and real estate to mitigate any concentration risk. Due to the long-term nature of the pension plan liabilities, the board of the pension fund consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to improve the return generated by the fund. This may in turn result in improved discretionary benefits to members or reduced costs for the sponsoring entity.

Longevity risk

If pensioners live longer than expected then that will, all else equal, increase the funds' liabilities as benefits are paid for a longer term.

Salary risk

An increase in the salary of the plan participants will increase the plan's liability. This risk has been limited with the introduction of a defined contribution plan. There are now a limited number of active defined benefit members.

Measurement risk

The IAS 19 Employee Benefits liabilities are determined using various assumptions about future experience.

One of the most important assumptions is the discount rate derived from prevailing bond yields where these are available (where these are not available, the inflation rate plus a reasonable risk-free real return is used as a proxy). A decrease in the discount rate will, with all else equal, increase the plan liability; this may be partially offset by an increase in the value of assets, to the extent that the funds' investments are matched against its liabilities.

Other important assumptions are the inflation assumption, pension increase assumption and the longevity assumption and changes in those could affect the measured value of liabilities significantly. Changes in other assumptions used could also affect the measured liabilities.

Regulatory risk

The funds' benefits are governed by the rules of those funds, operating within the regulatory framework in Kenya. To the extent that governments can change that regulatory framework, the Group is exposed to a risk. In particular, regulations introducing issues like minimum benefits or minimum pension increases may result in higher benefits to members and a higher associated cost.

Refer to note 27 for the specific assumptions used and carrying amounts of retirement benefits.

Summary of accounting policies

for the year ended 31 December 2022

3. Judgements and estimates (continued)

3.7 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired.

If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. This reduction is the impairment loss. An impairment loss is recognised immediately in profit or loss.

Refer to Note 24 and 25 for the impairment loss recognised in the year.

3.8 Impairment losses on loans and advances

The measurement of impairment losses both under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Refer to:

- Note 2.14: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 40: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Notes to the annual financial statements

for the year ended 31 December 2022

		Group		Bank	
		2022 Shs'million	2021 Shs'million	**2022 Shs'million**	2021 Shs'million
4.	**Interest and similar income**				
	Financial assets held at fair value through OCI	**9 421**	8 297	**9 376**	8 247
	Loans and advances to banks and group companies	**751**	646	**751**	646
	Loans and advances to customers	**30 681**	23 095	**30 681**	23 095
	Total interest and similar income	**40 853**	32 038	**40 808**	31 988
5.	**Interest expense and similar charges**				
	Deposits from banks and group companies	**(965)**	(411)	**(965)**	(411)
	Customer accounts	**(6 976)**	(5 998)	**(7 115)**	(6 095)
	Subordinated debt and other borrowed funds	**(483)**	(242)	**(483)**	(242)
	Interest expense on lease liabilities	**(114)**	(130)	**(114)**	(130)
	Total interest and similar expense	**(8 538)**	(6 781)	**(8 677)**	(6 878)

Notes to the annual financial statements

for the year ended 31 December 2022

6. Net fee and commission income

In the following table, fees and commission income from contracts with customers in scope of IFRS 15 is disaggregated to major service lines.

	2022			2021		
Group	**Corporate Banking Shs'million**	**Consumer Banking Shs'million**	**Total Shs'million**	Corporate Banking Shs'million	Consumer Banking Shs'million	Total Shs'million
Fee and commission income						
Service fees	**586**	**3 687**	**4 273**	716	3 492	4 208
Credit related fee and commissions	**899**	**484**	**1 383**	829	903	1 732
Insurance agency commissions	**–**	**1 083**	**1 083**	-	1 061	1 061
Fee and commission income	**1 485**	**5 254**	**6 739**	1 545	5 456	7 001
Fee and commission expense						
Fee and commission expense	**(151)**	**(415)**	**(566)**	(99)	(745)	(844)
Net fee and commission income	**1 334**	**4 839**	**6 173**	1 446	4 711	6 157
Bank						
Service fees	**553**	**3 537**	**4 090**	585	3 492	4 077
Credit related fee and commissions	**899**	**484**	**1 383**	829	903	1 732
Fee and commission income	**1 452**	**4 021**	**5 473**	1 414	4 395	5 809
Fee and commission expense						
Fee and commission expense	**(151)**	**(415)**	**(566)**	(98)	(615)	(713)
Net fee and commission income	**1 301**	**3 606**	**4 907**	1 316	3 780	5 096

There are no contract receivables and contract liabilities from contracts with customers as the service fees are billed instantaneously. Revenues related to transactions are recognised at a point in time when the transactions takes place.

7. Net trading income

	Group and Bank	
	2022 Shs'million	2020 Shs'million
Debt securities	**192**	622
Foreign exchange	**6 646**	4 162
Net trading income	**6 838**	4 784

Debt securities income includes the results of buying and selling and changes in the fair value of debt securities and debt securities sold short as well as the related interest income and expense.

Foreign exchange income includes gains and losses from spot and forward contracts and other currency derivatives. Other foreign exchange differences arising on non–trading activities are taken to other operating income/expense in the income statement.

8. Other operating income

	Group		Bank	
	2022 Shs'million	2020 Shs'million	**2022 Shs'million**	2020 Shs'million
Rental income	**46**	40	**46**	40
Sundry income	**(39)**	62	**(21)**	78
Total other operating income	**7**	102	**25**	118

The sundry income relates to income not earned in the normal course of business.

Notes to the annual financial statements

for the year ended 31 December 2022

9. Impairment losses on financial instruments

Group	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Total impairment loss	**113**	**(264)**	**(5 673)**	**(5 824)**
2022		**Collectively assessed**		
Loans and advances to customers	**405**	**(305)**	**(4 724)**	**(4 624)**
Recoveries of loans and advances	**-**	**-**	**528**	**528**
Total impairment loss	**405**	**(305)**	**(4 196)**	**(4 096)**
		Individually assessed		
Loans and advances to banks	**9**	**-**	**-**	**9**
Cash and balances with Central Bank of Kenya	**(2)**	**-**	**-**	**(2)**
Loans and advances to customers	**(154)**	**4**	**(1 475)**	**(1 625)**
Debt instruments measured at FVOCI	**5**	**-**	**-**	**5**
Financial guarantees & letters of credit	**(9)**	**57**	**(6)**	**42**
Other assets	**(82)**	**-**	**-**	**(82)**
Other undrawn commitments	**(59)**	**(20)**	**-**	**(79)**
	(292)	**41**	**(1 481)**	**(1 732)**
Recoveries of loans and advances	**-**	**-**	**4**	**4**
Total impairment loss	**(292)**	**41**	**(1 477)**	**(1 728)**
2021				
Total impairment loss	(905)	332	(3 514)	(4 087)
		Collectively assessed		
Loans and advances to customers	(872)	768	(3 880)	(3 984)
Recoveries of loans and advances	-	-	509	509
	(872)	768	(3 371)	(3 475)
		Individually assessed		
Loans and advances to banks	(12)	-	-	(12)
Cash and balances with Central Bank of Kenya	1	-	-	1
Loans and advances to customers	(110)	(422)	(146)	(678)
Debt instruments measured at FVOCI	16	-	-	16
Financial guarantees & letters of credit	(58)	(2)	-	(60)
Other assets	(1)	-	-	(1)
Other undrawn commitments	131	(12)	-	119
	(33)	(436)	(146)	(615)
Recoveries of loans and advances	-	-	3	3
Total impairment loss	(33)	(436)	(143)	(612)

Notes to the annual financial statements

for the year ended 31 December 2022

9. Impairment losses on financial instruments (continued)

Bank	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Total impairment loss	**190**	**(264)**	**(5 673)**	**(5 747)**
2022		**Collectively assessed**		
Loans and advances to customers	**405**	**(305)**	**(4 724)**	**(4 624)**
Recoveries of loans and advances	**–**	**–**	**528**	**528**
Total impairment loss	**405**	**(305)**	**(4 196)**	**(4 096)**
		Individually assessed		
Loans and advances to banks	**9**	**–**	**–**	**9**
Cash and balances with Central Bank of Kenya	**(2)**	**–**	**–**	**(2)**
Loans and advances to customers	**(155)**	**4**	**(1 475)**	**(1 626)**
Debt instruments measured at FVOCI	**5**	**–**	**–**	**5**
Financial guarantees and letters of credit	**(9)**	**57**	**(6)**	**42**
Other assets	**(4)**	**–**	**–**	**(4)**
Other undrawn commitments	**(59)**	**(20)**	**–**	**(79)**
	(215)	**41**	**(1 481)**	**(1,655)**
Recoveries of loans and advances	**–**	**–**	**4**	**4**
Total impairment loss	**(215)**	**41**	**(1 477)**	**(1,651)**
2021				
Total impairment loss	(904)	332	(3 514)	(4 086)
		Collectively assessed		
Loans and advances to customers	(872)	768	(3 880)	(3 984)
Recoveries of loans and advances	-	-	509	509
Total impairment loss	(872)	768	(3 371)	(3 475)
		Individually assessed		
Loans and advances to banks	(12)	-	-	(12)
Cash and balances with Central Bank of Kenya	1	-	-	1
Loans and advances to customers	(110)	(422)	(146)	(678)
Debt instruments measured at FVOCI	16	-	-	16
Financial guarantees and letters of credit	(58)	(2)	-	(60)
Other undrawn commitments	131	(12)	-	119
	(32)	(436)	(146)	(614)
Recoveries of loans and advances	-	-	3	3
Total impairment loss	(32)	(436)	(143)	(611)

Notes to the annual financial statements

for the year ended 31 December 2022

10. Employee benefits	Group 2022 Shs'million	Group 2021 Shs'million	Bank 2022 Shs'million	Bank 2021 Shs'million
Salaries and allowances	**(8 381)**	(7 783)	**(8 214)**	(7 600)
Share-based payments (Note 10.1)	**(179)**	(96)	**(179)**	(96)
Training costs	**(83)**	(52)	**(82)**	(51)
Staff medical costs	**(549)**	(472)	**(544)**	(471)
Post-employment benefits:				
Defined contribution benefits scheme	**(676)**	(655)	**(664)**	(642)
Defined benefit plan (Note 27.1)	**(55)**	(12)	**(55)**	(12)
Social security cost	**(6)**	(5)	**(6)**	(5)
Other	**(746)**	(518)	**(661)**	(420)
Total employee benefits	**(10 675)**	(9 593)	**(10 405)**	(9 297)
Other includes temporary staff salaries and fringe benefit tax				
Average number of employees during the year	**2 070**	1 979	**2 070**	1 979
Average number of direct sales during the year	**593**	621	**593**	621

10.1 Deferred cash and share-based payments	Group and Bank 2022 Shs'million	Group and Bank 2021 Shs'million
The statement of comprehensive income charge for share-based payments comprises the following:		
Equity-settled arrangements	**(110)**	(58)
Cash-settled arrangements:		
Absa Group Limited Cash Value Plan ("CVP")	**(69)**	(38)
Total deferred cash and share-based payments	**(179)**	(96)

Cash-settled share-based payment schemes are measured with reference to the statement of financial position date and the Absa Group Limited share price.

11. Infrastructure costs	Group 2022 Shs'million	Group 2021 Shs'million	Bank 2022 Shs'million	Bank 2021 Shs'million
Property cost	**(941)**	(697)	**(941)**	(694)
Other infrastructure costs	**(114)**	(95)	**(113)**	(95)
	(1 055)	(792)	**(1 054)**	(789)

Notes to the annual financial statements

for the year ended 31 December 2022

		Group		Bank	
12.	**Administrative and general expenses**	**2022 Shs'million**	2021 Shs'million	**2022 Shs'million**	2021 Shs'million
	Auditors' remuneration:				
	Local statutory audit	**(23)**	(25)	**(21)**	(25)
	Information systems technology audit	**(8)**	(9)	**(8)**	(9)
		(31)	(34)	**(29)**	(34)
	Consultancy, legal and professional fees	**(178)**	(179)	**(169)**	(173)
	Subscription, publications, stationery and communications	**(677)**	(683)	**(658)**	(659)
	Marketing, advertising and sponsorship	**(516)**	(352)	**(516)**	(344)
	Travel and accommodation	**(169)**	(85)	**(165)**	(84)
	Cash transportation	**(184)**	(206)	**(184)**	(206)
	Security costs	**(226)**	(152)	**(226)**	(152)
		(1 950)	(1 657)	**(1 918)**	(1 618)
	Other operating expenses	**(4 066)**	(3 687)	**(4 047)**	(3 669)
	Total operating expenses	**(6 047)**	(5 378)	**(5 994)**	(5 321)

Other operating expenses mainly consists of group recharges, (Note 45), insurance costs and motor vehicle expenses.

		Group		Bank	
13.	**Income taxes**	**2022 Shs'million**	2021 Shs'million	**2022 Shs'million**	2021 Shs'million
13.1	**Income tax recognised in profit or loss**				
	Current income tax	**(6 556)**	(5 733)	**(6 223)**	(5 473)
	Current income tax - prior year adjustments	**(21)**	(70)	**(32)**	(74)
		(6 577)	(5 803)	**(6 255)**	(5 547)
	Deferred income tax (Note 28)				
	Current year credit	**315**	1 035	**292**	1 031
	Deferred income tax – prior year adjustments	**-**	89	**-**	88
	Total income tax expense for the year	**(6 262)**	(4 679)	**(5 963)**	(4 428)
	The effective tax rate for the year ended 31 December 2022 is 30% (2021: 30.1%)				
	Profit for the year	**20 849**	15 549	**19 832**	14 726
	Income tax expense calculated at 30% (2021: 30%)	**6 255**	4 665	**5 950**	4 418
	Prior year adjustments	**21**	-	**32**	-
	Effect of income that is exempt from taxation	**(337)**	(216)	**(328)**	(216)
	Effect of expenses that are not deductible in determining taxable profit	**323**	230	**309**	226
	Income tax expense recognised in profit or loss	**6 262**	4 679	**5 963**	4 428

Deferred income tax on fair value gains or losses on fair value through other comprehensive income (FVOCI) financial assets has been recorded in other comprehensive income.

Notes to the annual financial statements

for the year ended 31 December 2022

14. Earnings per share	Group 2022 Shs'million	Group 2021 Shs'million	Bank 2022 Shs'million	Bank 2021 Shs'million
Net profit attributable to shareholders	**14 587**	10 870	**13 866**	10 298
Number of ordinary shares in issue	**5 432**	5 432	**5 432**	5 432
Basic earnings per share	**2.69**	2.00	**2.55**	1.90

There were no potentially dilutive shares outstanding as at 31 December 2022 or 2021. Diluted earnings per share are therefore the same as basic earnings per share.

15. Cash and balances at central banks	Group and Bank 2022 Shs'million	Group and Bank 2021 Shs'million
Cash in hand	**11 464**	7 730
Balances with Central Bank of Kenya (CBK)	**12 752**	13 283
Impairment charge	**(5)**	(4)
	24 211	21 009

In accordance with Section 38 of the Central Bank of Kenya Act, the Bank is required to maintain minimum cash balances on deposit as reserves against its deposits and other liabilities. These restricted cash balances are not available for use in the Bank's day to day operations hence are excluded from items of cash and cash equivalents.

In 2022, the Cash Reserve Ratio (CRR) was set at 4.25 percent of the total of the bank's domestic and foreign currency deposit liabilities. The CRR is maintained based on a daily average level from the fifteenth of the previous month to the fourteenth of the current month and not to fall below a CRR of 3 percent on any day.

Cash in hand and balances with Central Bank of Kenya are non-interest bearing.

16. Financial assets at fair value through profit or loss	Group and Bank 2022 Shs'million	Group and Bank 2021 Shs'million
Debt securities : Government treasury bills and bonds	**42 905**	44 196

All financial assets at fair value through profit or loss are current.

17. Derivative financial instruments

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. The derivative instrument contract value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps and forward rate agreements.

At the reporting date, the Bank did not have any compound financial instruments with multiple embedded derivatives in issue. The Bank only trades the following derivative instrument:

Foreign exchange derivatives

The Bank's principal exchange rate-related contracts are forward foreign exchange contracts, options and currency swaps. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

The Bank trades foreign exchange forwards and swaps (forward contracts). These are binding contracts locking in the exchange rate for the purchase or sale of a currency on a future date. The Bank's forward book is marked to market on a daily basis.

Notes to the annual financial statements

for the year ended 31 December 2022

17. Derivative financial instruments (continued)

17.1 Notional amount

The gross notional amount is the sum of the absolute value of all contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Bank's participation in derivative contracts and not the market risk position nor the credit exposure arising on such contracts.

The absolute value of all contracts is also not indicative of the Bank's net exposure to, or position in any of the markets that the Bank trades in.

The Bank's total derivative asset and liability position as reported on the statement of financial position is as follows:

	Group and Bank		
	Notional Contract Amount Shs'million	**Carrying value assets Shs'million**	**Carrying value liabilities Shs'million**
2022			
Foreign exchange derivatives			
Forward foreign exchange	**(19 530)**	**313**	**(309)**
Currency swap	**(115 286)**	**2 515**	**(886)**
Options	**(6 718)**	**39**	**(38)**
Total derivatives	**(141 534)**	**2 867**	**(1 233)**
2021			
Foreign exchange derivatives			
Forward foreign exchange	(21 322)	204	(117)
Currency swap	(61 041)	722	(1 035)
Options	(8 091)	194	(192)
Total derivatives	(90 454)	1 120	(1 344)

18. Financial assets at fair value through other comprehensive income

	Group		Bank	
	2022 Shs'million	2021 Shs'million	**2022 Shs'million**	2021 Shs'million
Government treasury bills	**16 104**	13 097	**16 104**	13 097
Government treasury bonds	**74 481**	75 384	**74 089**	74 976
Impairment losses	**-**	(101)	**-**	(101)
	90 585	88 380	**90 193**	87 972

Treasury bills are debt securities issued by the Government of Kenya and are classified as fair value through other comprehensive income. The weighted average effective interest rate on the Government securities at 31 December 2022 was 10.5% (2021: 10.1%).

Included as part of FVOCI is Shs 1 250 million pledged as security for the Intra-Day Liquidity Facility (ILF). Refer to Note 46.2.

Group

In 2022, a fair value loss of Shs 2 041 million (Gross: Shs 2 916 million loss less deferred income tax of Shs 875 million) has been recognised in other comprehensive income.

In 2021, a fair value gain of Shs 688 million Gross: Shs 983 million loss less deferred income tax of Shs 295 million) has been recognised in other comprehensive income.

Bank

In 2022, a fair value loss of Shs 2 029 million (Gross: Shs 2 898 million loss less deferred income tax of Shs 869 million) has been recognised in other comprehensive income.

In 2021, a fair value loss of Shs 675 million (Gross: Shs 964 million loss less deferred income tax of Shs 289 million) has been recognised in other comprehensive income.

Notes to the annual financial statements

for the year ended 31 December 2022

19. Loans and advances to banks	Group and Bank 2022 Shs'million	Group and Bank 2021 Shs'million
Loans and advances to banks	**4 960**	3 019
Impairment losses	**(3)**	(12)
	4 957	3 007

The weighted average effective interest rate on deposits and balances due from banking institutions at 31 December 2022 was 5.6% (2021: 4.6%). Loans and advances to banks are current.
Loans and advances to banks are highly liquid financial assets with maturities of less than 3 months from the date of acquisition hence are regarded as part of cash and cash equivalents on Note 38.

20. Loans and advances to customers	Group and Bank 2022 Shs'million	Group and Bank 2021 Shs'million
Commercial loans	**216 573**	188 261
Bills discounted	**54 390**	39 591
Post acceptance letters of credit	**8 466**	6 549
Instalment credit agreements	**14 233**	11 754
Overdrafts	**8 463**	5 582
Gross loans and advances to customers	**302 125**	251 737
Impairment losses raised during the reporting period		
Stage 1 expected credit losses	**(4 150)**	(3 387)
Stage 2 expected credit losses	**(3 219)**	(3 437)
Stage 3 expected credit losses	**(15 389)**	(13 551)
Amounts written off during the year as uncollectible	**4 212**	2 872
Impairment losses	**(18 546)**	(17 503)
Net loans and advances to customers	**283 579**	234 234

	Group		Bank	
21. Other assets and prepaid expenses	**2022 Shs'million**	2021 Shs'million	**2022 Shs'million**	2021 Shs'million
Prepaid expenses	**643**	525	**641**	525
Items in course of collection from banks	**885**	929	**885**	929
Staff loan marked to market	**523**	497	**523**	497
Balances due from mobile banking service providers	**5 642**	5 514	**5 642**	5 514
Other	**1 743**	2 587	**1 698**	2 373
Gross other assets and prepaid expenses	**9 436**	10 052	**9 389**	9 838
Impairment losses	**(84)**	(2)	**(4)**	-
Net other assets and prepaid expenses	**9 352**	10 050	**9 385**	9 838

Items in the course of collection from banks relate to cheques being cleared. All other assets and prepaid expenses are receivable within one year hence are current.

Notes to the annual financial statements

for the year ended 31 December 2022

22. Investment in subsidiaries

	Proportion of ownership interest and voting power held		Carrying amount Shs'million	Shs'million
Name of subsidiary	**2022**	2021	**2022**	2021
Absa Securities Limited	**100%**	100%	**363**	363
Absa Kenya Nominees Limited	**100%**	100%	**-**	-
Absa Asset Management Limited	**100%**	100%	**95**	95
Absa Bancassurance Intermediary Limited	**100%**	100%	**5**	5
Absa Pension Services Limited	**100%**	100%	**-**	-
			463	463

Absa Kenya Nominees Limited and Absa Pension Services Limited are dormant companies. Absa Securities Limited, Absa Asset Management Limited and Absa Bancassurance Intermediary Limited operate in the business of brokerage services, wealth management and insurance agency respectively.

The subsidiaries, all of which are unlisted, are incorporated in Kenya and have the same year end as the Bank.

23. Non-current assets held for sale

As at 31 December 2022, the Group continued to recognise in its financial statements items of property and equipment from its closed branches (Maragua and Mombasa Road). A sale of the items 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, 2023.

	Group and Bank	
	2022 Shs'million	2021 Shs'million
Property and equipment	**47**	47
	47	47

The carrying value is based on the net book value of the assets at the point of recognition as held for sale. There is no impairment or reversal recorded against the non-current assets held for sale. As at 31 December 2022, the properties had a fair value of Shs 178 million (2021: Shs 178 million).

Notes to the annual financial statements

for the year ended 31 December 2022

Group	Freehold buildings Shs'million	Right of use assets Shs'million	Leasehold improvements Shs'million	Fixtures fittings and equipment Shs'million	Motor vehicles Shs'million	Work in progress Shs'million	Total Shs'million
24. Property and equipment							
Cost or valuation – 2022							
Balance at beginning of the year	**135**	**1 871**	**2 817**	**4 756**	**19**	**194**	**9 792**
Additions	**-**	**573**	**-**	**134**	**-**	**322**	**1 029**
Derecognition	**-**	**-**	**(31)**	**(172)**	**-**	**-**	**(203)**
Transfer from WIP	**-**	**-**	**-**	**425**	**-**	**(425)**	**-**
Reclassification to intangible assets	**-**	**-**	**-**	**-**	**-**	**(13)**	**(13)**
Balance at end of the year	**135**	**2 444**	**2 786**	**5 143**	**19**	**78**	**10 605**
Accumulated depreciation – 2022							
Balance at beginning of the year	**(86)**	**(1 161)**	**(2 184)**	**(3 974)**	**(18)**	**-**	**(7 423)**
Depreciation	**(2)**	**(355)**	**(85)**	**(313)**	**(1)**	**-**	**(756)**
Derecognition	**-**	**-**	**31**	**172**	**-**	**-**	**203**
Balance at end of the year	**(88)**	**(1 516)**	**(2 238)**	**(4 115)**	**(19)**	**-**	**(7 976)**
Net book value at end of year	**47**	**928**	**548**	**1 028**	**-**	**78**	**2 629**
Cost or valuation – 2021							
Balance at beginning of the year	135	1 964	2 966	8 880	19	4	13 968
Additions	-	-	-	232	-	188	420
Derecognition	-	(93)	(149)	(4 356)	-	-	(4 598)
Reclassification from intangible assets	-	-	-	-	-	2	2
Balance at end of the year	135	1 871	2 817	4 756	19	194	9 792
Accumulated depreciation - 2021							
Balance at beginning of the year	(84)	(822)	(2 224)	(8 011)	(18)	-	(11 159)
Depreciation	(2)	(339)	(109)	(319)	-	-	(769)
Derecognition	-	-	149	4 356	-	-	4 505
Balance at end of the year	(86)	(1 161)	(2 184)	(3 974)	(18)	-	(7 423)
Net book value at end of year	49	710	633	782	1	194	2 369

Right-of-use asset relates to the Group's leased premises i.e. branches and ATM space.
The Group has not pledged any item of property and equipment as security as at December 2022 (December 2021: Nil)
Work in progress as at 31 December 2022 related to various projects that have commenced but not completed.
As at 31 December 2022, no impairment has been recognised on property and equipment.

Notes to the annual financial statements

for the year ended 31 December 2022

Bank	Freehold buildings Shs'million	Right of use assets Shs'million	Leasehold improvements Shs'million	Fixtures fittings and equipment Shs'million	Motor vehicles Shs'million	Work in progress Shs'million	Total Shs'million
24. Property and equipment							
Cost or valuation – 2022							
Balance at beginning of the year	**135**	**1 871**	**2 817**	**4 756**	**19**	**194**	**9 792**
Additions	**-**	**573**	**-**	**133**	**-**	**322**	**1 028**
Derecognition	**-**	**-**	**(31)**	**(172)**	**-**	**-**	**(203)**
Transfer from WIP	**-**	**-**	**-**	**425**	**-**	**(425)**	**-**
Reclassification to intangible assets	**-**	**-**	**-**	**-**	**-**	**(13)**	**(13)**
Balance at end of the year	**135**	**2 444**	**2 786**	**5 142**	**19**	**78**	**10 604**
Balance at end of the year	**135**	**2 444**	**2 786**	**5 142**	**19**	**78**	**10 604**
Accumulated depreciation – 2022							
Balance at beginning of the year	**(86)**	**(1 161)**	**(2 184)**	**(3 974)**	**(18)**	**-**	**(7 423)**
Depreciation	**(2)**	**(355)**	**(85)**	**(313)**	**(1)**	**-**	**(756)**
Derecognition	**-**	**-**	**31**	**171**	**-**	**-**	**202**
Balance at end of the year	**(88)**	**(1 516)**	**(2 238)**	**(4 116)**	**(19)**	**-**	**(7 977)**
Net book value at end of year	**47**	**928**	**548**	**1 026**	**-**	**78**	**2 627**
Cost or valuation – 2021							
Balance at beginning of the year	135	1 964	2 966	8 880	19	4	13 968
Additions	-	-	-	232	-	188	420
Derecognition	-	(93)	(149)	(4 356)	-	-	(4 598)
Reclassification from intangible assets	-	-	-	-	-	2	2
Balance at end of the year	135	1 871	2 817	4 756	19	194	9 792
Balance at end of the year	135	1 871	2 817	4 756	19	194	9 792
Accumulated depreciation - 2021							
Balance at beginning of the year	(84)	(822)	(2 224)	(8 011)	(18)	-	(11 159)
Depreciation	(2)	(339)	(109)	(319)	-	-	(769)
Derecognition	-	-	149	4 356	-	-	4 505
Balance at end of the year	(86)	(1 161)	(2 184)	(3 974)	(18)	-	(7 423)
Net book value at end of year	49	710	633	782	1	194	2 369

Right-of-use asset relates to the Group's leased premises i.e. branches and ATM space.
The Group has not pledged any item of property and equipment as security as at December 2022 (December 2021: Nil)
Work in progress as at 31 December 2022 related to various projects that have commenced but not completed.
As at 31 December 2022, no impairment has been recognised on property and equipment.

Notes to the annual financial statements

for the year ended 31 December 2022

25. Intangible assets	Computer software Shs'million	WIP Shs'million	Total Shs'million
Group			
Cost – 2022			
At start of year	**5 626**	**70**	**5 696**
Acquisitions	**8**	**141**	**149**
Transfer from WIP	**139**	**(139)**	**–**
Transfers to property and equipment	**–**	**13**	**13**
Balance at end of the year	**5 773**	**85**	**5 858**
Amortisation and impairment losses – 2022			
At start of year	**(5 215)**	**–**	**(5 215)**
Amortisation	**(127)**	**–**	**(127)**
Balance at end of the year	**(5 342)**	**–**	**(5 342)**
Net book value at end of year	**431**	**85**	**516**
Cost - 2021			
At start of year	5 422	75	5 497
Acquisitions	131	70	201
Transfer from WIP	73	(73)	-
Write off	-	(2)	(2)
Balance at end of the year	5 626	70	5 696
Amortisation and impairment losses - 2021			
At start of year	(5 083)	-	(5 083)
Amortisation	(132)	-	(132)
Balance at end of the year	(5 215)	-	(5 215)
Net book value at end of year	411	70	481

The Group has not pledged any item of intangible assets as security as at December 2022 (December 2021: Nil).

Work in progress relates to computer software for upgrades in the banking system which had not been completed as at year end.

As at 31 December 2022, no impairment has been recognised on intangible assets.

Notes to the annual financial statements

for the year ended 31 December 2022

25. Intangible assets (continued)	Computer software Shs'million	WIP Shs'million	Total Shs'million
Bank			
Cost – 2022			
At start of year	**5 544**	**66**	**5 610**
Acquisitions	**8**	**139**	**147**
Transfer from WIP	**139**	**(139)**	**–**
Transfers to property and equipment	**–**	**13**	**13**
Balance at end of the year	**5 691**	**79**	**5 770**
Amortisation and impairment losses – 2022			
At start of year	**(5 192)**	**–**	**(5 192)**
Amortisation	**(116)**	**–**	**(116)**
Balance at end of the year	**(5 308)**	**–**	**(5 308)**
Net book value at end of year	**383**	**79**	**462**
Cost - 2021			
At start of year	5 340	75	5 415
Acquisitions	131	66	197
Transfer from WIP	73	(73)	-
Write off	-	(2)	(2)
Balance at end of the year	5 544	66	5 610
Amortisation and impairment losses – 2021			
At start of year	(5 072)	-	(5 072)
Amortisation	(120)	-	(120)
Balance at end of the year	(5 192)	-	5 192
Net book value at end of year	352	66	418

The Bank has not pledged any item of intangible assets as security as at December 2022 (December 2021: Nil).
Work in progress relates to computer software for upgrades in the banking system which had not been completed as at year end.
As at 31 December 2022, no impairment has been recognised on intangible assets.

Notes to the annual financial statements

for the year ended 31 December 2022

26. Leasehold land

Leasehold land is carried at cost less amortisation over the period of the lease.

	Group and Bank	
	2022 Shs'million	2021 Shs'million
At start of year	**33**	34
Amortisation charge for the year	**(1)**	(1)
At end of year	**32**	33

Prepaid operating leases relate to land purchased on 99 year lease.

27. Retirement benefit (liability)/asset

The Absa Bank Kenya PLC Staff Pension Fund ("the Fund") is a defined benefit pension fund. Prior to 1 January 2010 the Fund consisted of both a Defined Benefit ("DB") and a Defined Contribution ("DC") component. On 1 January 2010, the Fund was split into two separate legal entities, with the liabilities of the DB section remaining in the Fund, and the DC liabilities being transferred to the Absa Bank Kenya PLC Staff Retirement Benefits (Defined Contribution) Scheme 2009 ("the DC Fund").

The operation of the Fund is regulated by the Retirement Benefits Authority ("RBA") and subject to the provisions of the Retirement Benefits Act, 1997. The Fund is governed by the Trust Deed and Rules set out in the Fourteenth Deed of Amendment dated 12 February 2010 ("Rules").

Membership data

The membership data used for the valuation is summarised in the table below:

	2022	**2022**	2021	2021
Category	**Number**	**Annual Salary / Pension Shs'million**	**Number**	**Annual Salary / Pension Shs'million**
Defined benefit				
Active members	2	12	2	11
Deferred pensioners	784	69	797	69
Pensioners	1 407	472	1 436	466

Summary of benefit and contribution structure

Eligibility	Existing Members who opt to remain Members of the Fund on the terms applying to DB Members.
Final Pensionable Salary	(i) If the Member has been in service for 20 years or more, the annual pensionable salary at the date of leaving. (ii) If the Member has been in service for less than 20 years, the average annual salary paid to the member during the last five years of service.
Normal Retirement Age	Males 60 Females 55 (60 for some females)
Service	Continuous service with Bank or with Barclays Bank DCO or Barclays Bank International Limited, immediately prior to the establishment of Barclays Bank of Kenya Limited. For those employees who joined the Fund aged 17 or less, service will count from the member's 17th birthday.
Normal Retirement and Late Retirement Pension	If service is 20 years or more then 1/720 of Final Pensionable Salary for each month of service to 31 December 2009. Thereafter, benefits accrue at a rate of 1/960 per month. If service is lower than 20 years 1/960 of Final Pensionable Salary for each month of service. This pension is reduced by an amount in respect of the social security pensions as described below and cannot exceed 2/3 of his or her pensionable salary at the date of retirement.
Ill-health retirement*	Pension based on potential service to Normal Retirement Age and Final Pensionable Salary at the date of ill-health retirement. This pension will be paid only if service is 5 years or more.

Notes to the annual financial statements

for the year ended 31 December 2022

27. Retirement benefit (liability)/asset (continued)

Retirement due to unsatisfactory service	Deferred pension payable from the later of the date the Member attains age 50 or retires from Service.
Commutation	Up to ¼ of pension (calculated on the advice of the Actuary).
Death in service	Lump sum equal to three year's annual pensionable salary, if the member has been in service for more than five years, otherwise ¼ of the member's rate of Pensionable Salary at the date of death.
Death in deferment	Lump sum equal to five times deferred pension amount.
Death after retirement	Lump sum equal to the remaining pension payable within 5 years of retirement age.
Withdrawal	Deferred Pension payable at Normal Retirement Age calculated as follows:

Service	Fraction of Pensionable Salary for each month of service to 31 December 2009
Less than 20 years	**1/960**
20 to 30 years	**1/840**
30 years and over	**1/720**

Benefits accrue at a rate of 1/960 per month for service post 1

January 2010.

In no case shall a deferred pension exceed the amount which could have been paid to the Member if he or she had stayed in service until Normal Retirement Age.

This pension is reduced by an amount in respect of the social security pensions as described below and cannot exceed 2/3 of his or her pensionable salary at the date of retirement.

A cash lump sum** equal to 1/3 of the deferred pension may be taken prior to normal retirement age, with a reduced pension being payable from normal retirement age.

Pension Increases	The Scheme Trustees may, with the consent of the Principal Employer, review pensions in payment and subject to there being sufficient funds for the purpose or the Employers paying a special additional contribution as determined by the Actuary, may increase such pensions.
Contributions	Members are not required to contribute to the Fund, although they can elect to pay voluntary contributions. The Bank contributes to the Fund, the balance of the cost of providing the benefits.
Government Pensions	If a member has completed 40 years' service a deduction is made equal to ½ of any government pension payable to a single person (for members with less than 40 years' service a percentage of this pension is deducted). In addition, a deduction equal to the pension equivalent of any sum paid by the Bank to a DB member under any statutory enactment, order, directive, or under any agreement with a trade union or similar body.

Notes to the annual financial statements

for the year ended 31 December 2022

27. Retirement benefit (liability)/asset (continued)

27.1 Defined benefit plan

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at 2022	2021
Discount rate	**13.9%**	13.10%
Expected return on assets	**13.9%**	13.10%
Expected rate of salary increase	**9.50%**	9.00%
Price inflation	**7.5%**	7.00%
Mortality rate	**PA (90)**	PA (90)
Pension increases in payment and deferment	**4.5%**	4.00%

	Shs'million	Shs'million
Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:		
Current service cost	**26**	23
Net interest income on defined benefit plan	**29**	(11)
	55	12

	2022 Shs'million	2021 Shs'million
Amounts recognised in other comprehensive income in respect of these defined benefit plans are as follows:		
Actuarial gain - financial assumptions	**45**	43
Actuarial loss - demographic assumptions	**(109)**	-
Actuarial gain - experience adjustment	**25**	277
Return on plan assets	**(455)**	(976)
Adjustments for restrictions on the defined benefit asset	**505**	232
	11	(424)

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the end of the reporting period. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The amount included in the statement of financial position arising from the Bank's obligation in respect of its defined benefit plans is as follows:

	2022 Shs'million	2021 Shs'million
Present value of funded defined benefit obligation	**(3 913)**	(3 918)
Fair value of plan assets	**4 178**	4 342
Funded surplus	**265**	424
Asset restriction	**(265)**	(424)
Additional liability in respect of the minimum funding requirement	**(121)**	(363)
Net liability arising from defined benefit obligation	**(121)**	(363)

An economic benefit exists in the form of reductions in future contributions where the scheme is in a surplus. However, legislation stipulates that surplus above 10% of the accrued liability would be available for a contribution holiday. At the current valuation date, no surplus exists on the funding basis.

Movements in the present value of the defined benefit obligation in the current year were as follows:

	2022 Shs'million	2021 Shs'million
Opening defined benefit obligation	**(3 918)**	**(4 231)**
Current service cost	**(26)**	**(23)**
Interest expense	**(475)**	**(507)**
Actuarial gains - experience	**25**	**277**
Actuarial loss – demographic assumption	**(108)**	**-**
Actuarial gains - financial assumption	**45**	**43**
Benefits paid	**544**	**523**
Closing defined benefit obligation	**(3 913)**	**(3 918)**

Notes to the annual financial statements

for the year ended 31 December 2022

27 Retirement benefit (liability)/asset (continued)

	Group and Bank	
	2022 Shs'million	2021 Shs'million
27.1 Defined benefit plan (continued)		
Movements in the present value of the plan assets in the current year were as follows:		
Opening fair value of plan assets	**4 342**	5 206
Benefits paid	**(544)**	(523)
Contributions from the employer	**286**	1
Interest income	**549**	634
Actuarial loss OCI	**(455)**	(976)
Closing fair value of plan assets	**4 178**	4 342
Movements in asset restriction in the current year were as follows:		
Opening value	**(787)**	(903)
Net interest cost	**(103)**	(116)
Decrease/(increase) in asset restriction	**505**	232
Closing value	**385**	(787)

Cash flows

The cash flows in the current and expected in the next valuation period are shown below:

	2023 Shs'million Next valuation (expected)	2022 Shs'million Current valuation (estimated)
Company contributions – normal	**1**	2
Company contributions - expenses	**21**	42
Company contributions – deficit funding	**121**	242
Pension payments	**567**	557
Other benefit payments	**28**	440
Expense payments	**23**	21

	Fair value of plan assets			
Nature of the pension fund assets 2022	**Debt instruments Shs' million**	**Equity instruments Shs' million**	**Other instruments Shs' million**	**Total Shs'million**
Quoted fair value	**1 267**	**452**	**199**	**1 918**
Cash and cash equivalents	**-**	**-**	**108**	**108**
Investments in real estate	**-**	**-**	**2 152**	**2 152**
	1 267	**452**	**2 459**	**4 178**
2021				
Quoted fair value	1 192	620	256	2 068
Cash and cash equivalents	-	-	132	132
Investments in real estate	-	-	2 142	2 142
	1 192	620	2 530	4 342

Notes to the annual financial statements

for the year ended 31 December 2022

27. Retirement benefit (liability)/asset (continued)

27.1 Defined benefit plan (continued)

Sensitivity analysis (continued)

The effect of certain changes to the financial and demographic assumptions is analysed below:

2022	Base Shs'million	Discount rate -1.00% Shs'million	Discount rate +0.50% Shs'million	Inflation +0.50% Shs'million	PA(90) - 1 year Shs'million
Active members	**52**	**56**	**50**	**54**	**53**
Deferred members	**511**	**549**	**494**	**532**	**521**
Pensions in payment	**3 350**	**3 530**	**3 267**	**3 454**	**3 445**
Total liability	**3 913**	**4 135**	**3 811**	**4 040**	**4 019**
Gross service cost (excluding interest)	**26**	**26**	**26**	**26**	**26**

2021	Base Shs'million	Discount rate -1.00% Shs'million	Discount rate +0.50% Shs'million	Inflation 0.50% Shs'million	PA(90) - 1 year Shs'million
Active members	46	51	44	49	47
Deferred members	497	535	480	518	507
Pensions in payment	3 375	3 559	3 290	3 480	3 472
Total liability	3 918	4 145	3 814	4 047	4 026
Gross service cost (excluding interest)	23	23	23	23	23

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the retirement benefit obligation to significant actuarial assumptions the same method (present value of the obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The weighted average duration of the defined benefit obligation is 50 years. The figure is not very sensitive to the precise time horizon given the high net discount rate.

28. Deferred income tax

Deferred tax balances

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

	Group		Bank	
	2022 Shs'million	2021 Shs'million	**2022 Shs'million**	2021 Shs'million
Deferred tax assets	**6 489**	4 985	**6 396**	4 921
Deferred tax liabilities	**(564)**	(247)	**(561)**	(244)
Net deferred tax asset at the end of the year	**5 925**	4 738	**5 835**	4 677

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

The deferred income tax assets and liabilities positions shown above relate to the bank and its subsidiaries and amalgamate assets and liabilities, and thus are not specific to any particular entity. There is a net liability position relating to one of the entities that is not material.

Notes to the annual financial statements

for the year ended 31 December 2022

28. Deferred income tax (continued)

Deferred tax balances (continued)

Consolidated deferred income tax assets and liabilities are attributable to the following:

Group	Balance at 1 January Shs'million	Recognised in profit or loss Shs'million	Recognised in other comprehensive income Shs'million	Balance at 31 December Shs'million
2022				
Property and equipment	**411**	**(11)**	**-**	**400**
Financial assets at FVOCI	**(169)**	**-**	**875**	**706**
Unrealised gains and losses	**(78)**	**4**	**-**	**(74)**
Impairment losses on financial instruments	**3 157**	**412**	**-**	**3 569**
Tax losses	**61**	**(1)**	**-**	**60**
Derivatives	**67**	**(558)**	**-**	**(491)**
Share based payment transactions	**142**	**25**	**-**	**167**
Provisions	**817**	**468**	**-**	**1 285**
Re-measurement of defined benefit liability	**263**	**-**	**(3)**	**260**
Right of use assets	**67**	**(24)**	**-**	**43**
	4 738	**315**	**872**	**5 925**
2021				
Property and equipment	404	7	-	411
Financial assets at FVOCI	(464)	-	295	(169)
Unrealised gains and losses	(67)	(11)	-	(78)
Impairment losses on financial instruments	2 770	387	-	3 157
Tax losses	54	7	-	61
Derivatives	(429)	496	-	67
Share based payment transactions	113	29	-	142
Provisions	590	227	-	817
Re-measurement of defined benefit liability	136	-	127	263
Right of use assets	81	(14)	-	67
	3 188	1 128	422	4 738

Notes to the annual financial statements

for the year ended 31 December 2022

28. Deferred income tax (continued)

Deferred tax balances (continued)

Bank	Balance at 1 January Shs'million	Recognised in profit or loss Shs'million	Recognised in other comprehensive income Shs'million	Balance at 31 December Shs'million
2022				
Property and equipment	**408**	**(12)**	**-**	**396**
Financial assets at FVOCI	**(170)**	**-**	**869**	**699**
Unrealised gains and losses	**(74)**	**4**	**-**	**(70)**
Impairment losses on financial instruments	**3 157**	**389**	**-**	**3 546**
Derivatives	**67**	**(558)**	**-**	**(491)**
Share based payment transactions	**142**	**25**	**-**	**167**
Provisions	**817**	**468**	**-**	**1 285**
Re-measurement of defined benefit liability	**263**	**-**	**(3)**	**260**
Right of use assets	**67**	**(24)**	**-**	**43**
	4 677	**292**	**866**	**5 835**
2021				
Property and equipment	402	6	-	408
Financial assets at FVOCI	(459)	-	289	(170)
Unrealised gains and losses	(63)	(11)	-	(74)
Impairment losses on financial instruments	2 770	387	-	3 157
Derivatives	(429)	496	-	67
Share based payment transactions	113	29	-	142
Provisions	590	227	-	817
Re-measurement of defined benefit liability	136	-	127	263
Right of use assets	81	(14)	-	67
	3 141	1 120	416	4 677

29. Other liabilities and accrued expenses

	Group		Bank	
	2022 Shs'million	2021 Shs'million	**2022 Shs'million**	2021 Shs'million
Accrued expenses	**676**	623	**676**	623
Items in the course of collection due to other banks	**1 660**	1 544	**1 660**	1 544
Outstanding bankers' cheques	**108**	109	**108**	109
Trade finance margins	**882**	798	**882**	798
Card settlements	**444**	665	**444**	665
Impairment losses on off-balance sheet financial instruments	**641**	604	**641**	604
Other payables	**7 893**	8 275	**7 840**	8 165
Lease liability	**1 074**	941	**1 074**	941
Post acceptance letters of credit	**5 549**	5 313	**5 549**	5 313
	18 927	18 872	**18 874**	18 762

Other payables include items relating to excise duties payable, provision for litigation, interchange payable, uncleared payments and trade payables.

Other liabilities and accrued expenses are current.

Notes to the annual financial statements

for the year ended 31 December 2022

29 Other liabilities and accrued expenses (continued)

29.1 Financial guarantees, letters of credit and other undrawn commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend.

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

An analysis of changes in the outstanding exposures and the corresponding allowance for impairment losses in relation to guarantees and other commitments is set out below:

	Stage 1 Outstanding exposure Shs'million	Stage 2 Outstanding exposure Shs'million	Stage 3 Outstanding exposure Shs'million	Total Outstanding exposure Shs'million
Gross carrying amount at 1 January 2022	**80 887**	**16 055**	**44**	**96 986**
Transfer to Stage 1	**818**	**(818)**	**-**	**-**
Transfer to Stage 2	**(669)**	**669**	**-**	**-**
Transfer to Stage 3	**-**	**(8)**	**8**	**-**
Exposures that have been derecognised	**(43 630)**	**(13 291)**	**(7)**	**(56 928)**
New exposures	**53 860**	**14 125**	**61**	**68 046**
Gross carrying amount at 31 December 2022	**91 266**	**16 732**	**106**	**108 104**
Gross carrying amount at 1 January 2021	71 650	26 302	58	98 010
Transfer to Stage 1	398	(398)	-	-
Transfer to Stage 2	(652)	652	-	-
Transfer to Stage 3	-	-	-	-
Exposures that have been derecognised	(24 452)	(17 238)	(19)	(41 709)
New exposures	33 943	6 737	5	40 685
Gross carrying amount at 31 December 2021	80 887	16 055	44	96 986

	Stage 1 12 month ECL Shs'million	Stage 2 Lifetime ECL Shs'million	Stage 3 Lifetime ECL Shs'million	Total Shs'million
Impairment losses at 1 January 2022	**396**	**206**	**2**	**604**
Transfer to Stage 1	**15**	**(15)**	**-**	**-**
Transfer to Stage 2	**(7)**	**7**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Exposures that have been derecognised	**(61)**	**(29)**	**(8)**	**(98)**
New exposures	**135**	**-**	**-**	**135**
Impairment losses at 31 December 2022	**478**	**169**	**(6)**	**641**
Impairment losses at 1 January 2021	97	119	13	229
Transfer to Stage 1	23	(23)	-	-
Transfer to Stage 2	(7)	7	-	-
Transfer to Stage 3	-	-	-	-
Exposures that have been derecognised	(129)	(180)	(11)	(320)
New exposures	412	283	-	695
Impairment losses at 31 December 2021	396	206	2	604

Notes to the annual financial statements

for the year ended 31 December 2022

29 Other liabilities and accrued expenses (continued)

29.2 Lease liability

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	Group and Bank	
	2022 Shs'million	2021 Shs'million
As at 1 January	**941**	1 409
Additions	**436**	102
Reclassifications and adjustments	**113**	(192)
Payments	**(524)**	(504)
Interest expense on lease liabilities (Note 5)	**114**	130
Foreign currency translation	**(6)**	(4)
At 31 December	**1 074**	941
Amounts recognised in statement of comprehensive income		
Interest expense on lease liabilities (Note 5)	**114**	130
Depreciation on right of use assets (Note 24)	**355**	339
Expenses relating to short term leases	**113**	95
	582	564
Amounts recognised in statement of cash flows		
Payments	**(524)**	(504)
Interest expense on lease liabilities (Note 5)	**114**	130
	410	374
Maturity analysis of lease liabilities – contractual undiscounted cash flows:		
Less than one year	**452**	452
Between one to five years	**848**	652
Total undiscounted lease liabilities	**1 300**	1 104
Lease liabilities included in the statement of financial position	**1 074**	941

The Group's leases consist mostly of property leases including branches, head offices, ATM sites and other administrative buildings. None of these leases are considered individually significant to the Group. Leases are negotiated for an average term of five years, some leases will include renewal options but these are generally renewals at market rates to be negotiated at the time of renewing the contract. These rates will only be included in the lease liability once it is reasonably certain that the Group will exercise the extension option.

30. Deposits from banks

	Group and Bank	
	2022 Shs'million	2021 Shs'million
Due to local banks	**8 375**	4 301
Due to foreign banks	**643**	508
	9 018	4 809

The weighted average effective interest rate on deposits and balances due to banking institutions at 31 December 2022 was 5.9% (2021: 6.2%).

Deposits and balances due to banking institutions are current.

31. Deposits from customers

	Group		Bank	
	2022 Shs'million	2021 Shs'million	**2022 Shs'million**	2021 Shs'million
Call deposits	**13 125**	5 672	**13 125**	5 672
Savings and transmission accounts	**207 209**	196 409	**208 135**	196 514
Fixed deposits	**83 417**	66 636	**85 403**	68 551
Customer accounts	**303 751**	268 717	**306 663**	270 737

The weighted average effective interest rate on customer deposits at 31 December 2022 was 2.4% (2021: 2.3%). The carrying value of customer deposits approximates their fair value.

Deposits of Shs 1 993 million (2021: Shs 1 065 million) held as collateral for loans and advances were included in deposits from customers.

Notes to the annual financial statements

for the year ended 31 December 2022

32. Borrowings

	Group and Bank	
	2022 Shs'million	2021 Shs'million
Opening balance	**8 505**	8 211
Cash flow items:		
Issuance – USD 50 Million Absa subordinated loan	**6 175**	-
Issuance – USD 10 Million Eco business fund loan	**1 235**	-
Issuance – KES 3 Billion Kenya Mortgage Refinance loan	**3 009**	-
Repayment – Kenya Mortgage Refinance loan	**(51)**	-
Non – cash flow items:		
Foreign currency translation	**837**	293
Interest accrued in the year	**483**	242
Interest paid in the year	**(420)**	(241)
	19 773	8 505

The US$50million subordinated loan from Absa Group Limited was obtained on 26 February 2020 and has a maturity date of 02 February 2030. Interest is paid quarterly in arrears at a rate of 270bps above USD SOFR which re-sets every three months.

The US$25million subordinated loan from Absa Group Limited was obtained on 16 October 2019 and has a maturity date of 16 October 2029. Interest is paid quarterly in arrears at a rate of 270bps above USD SOFR which re-sets every three months.

The US$50million subordinated loan from Absa Group Limited was obtained on 21 December 2022 and has a maturity date of 21 December 2032. Interest is paid quarterly in arrears at a rate of 472bps above USD SOFR which re-sets every three months.

The US$10million loan from Eco Business Fund S.A. SICAV-SIF, was obtained on 21 December 2022 and has a maturity date of 15 December 2027. Interest is paid quarterly in arrears at a rate of 280bps above USD SOFR which re-sets every three months.

The KES 2Bn loan from Kenya Mortgage Refinance Company, was obtained on 01 September 2022 and has a maturity date of 01 September 2035. Interest is paid quarterly in arrears at a fixed rate of 5%.

The KES 1Bn loan from Kenya Mortgage Refinance Company, was obtained on 01 September 2022 and has a maturity date of 01 September 2031. Interest is paid quarterly in arrears at a rate of a fixed rate of 5%.

No collateral is held against the borrowings. The carrying value of borrowings approximates their fair value.

During the year, the effective interest on the borrowing recorded an interest expense was Shs 483 million (2021: Shs 244 million).

The Group did not have any defaults of principal or interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2022 and 2021.

33. Share capital

The authorised share capital of Absa Bank Kenya PLC is Shs 2,716 million comprising 5,432 million ordinary shares with a par value of Shs 0.50 per share. The issued share capital comprises 5,432 million ordinary shares fully paid with a par value of Shs 0.50 each.

	Group and Bank	
	2022 Shs'million	2021 Shs'million
5 432 (2021: 5 432) shares of stated capital.	**2 716**	2 716
	2 716	2 716

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

34. Reserves

34.1 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets classified at fair value through other comprehensive income until the instrument is derecognised or impaired; in which case the cumulative amount recognised in other comprehensive income is released to profit or loss.

34.2 Retained earnings

This reserve includes accumulated profits over the years. The retained earnings are distributable to shareholders.

34.3 Share-based payment reserve

The Bank's senior management participate in the following Absa Group share based payment arrangement:

(a) Absa Group Limited Share Incentive Plan Performance Award (SIPP)

Qualifying participants of the Share Incentive Plan Performance Award (SIPP) will be entitled to Absa Group Limited ordinary shares settled either by way of a share award or a cash award as defined by the plan rules and must be used to purchase Absa Group Limited ordinary shares. The award will be issued by Absa Group Limited. In order for the participant to be entitled to these awards, the participant needs to render three years or five years (depending on the grant received) of service and the requisite performance conditions need to be met. Dividends may accumulate and are reinvested over the vesting period.

Notes to the annual financial statements

for the year ended 31 December 2022

34. Reserves (continued)

34.3 Share-based payment reserve (continued)

(b) Absa Group Limited Share Incentive Plan Retention Buyout Award (SIPRB)

The Share Incentive Plan Retention Buyout Award (SIPRB) enables the Group to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme by offering the employees Absa Group Limited awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends may accumulate and are reinvested over the vesting period, which will align with the vesting period of the previous employer.

(c) Absa Group Limited Share Incentive Plan Deferred Award (SIPD)

The Share Incentive Plan Deferred Award (SIPD) (and any associated notional dividends) are awarded at no cost to the participants. The awards typically vest in equal tranches after one to five years. Absa Group Limited retains the obligation to settle in cash certain SIPD awards that are prohibited from being equity-settled. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends may accumulate and are reinvested over the vesting period.

(d) Absa Group Limited Share Incentive Plan Retention Award (SVP Cliff)

The Share Value Retention Plan (SVP Cliff) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years, subject to their own independent non-market related performance condition on vesting. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited's ordinary shares, as determined on the vesting date, to the extent that the non-market related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the vesting period.

Options series	Number	Exercise price	Total fair value at grant date (Shs' million)
SIPP	360 839	-	226
SIPRB	5 023	-	6
SIPD	88 417	-	102
SVP Cliff	83 522	-	104

Share appreciation rights series	Number	Exercise price	Total fair value at grant date (Shs' million)
JSVP	798	-	0.5

Movements during the period

The following reconciles the share options outstanding at the beginning and end of the period:

	2022					2021				
	Opening balance	**Granted/ transferred**	**Forfeited**	**Exercised**	**Closing balance**	Opening balance	Granted/ transferred	Forfeited	Exercised	Closing balance
Equity settled:										
SIPP	**523 582**	**75 771**	**(199 951)**	**(38 563)**	**360 839**	437 773	95 516	(9 707)	-	523 582
SIPRB	**7 533**	**1 002**	**-**	**(3 512)**	**5 023**	-	7 533	-	-	7 533
SIPD	**60 115**	**59 497**	**(1 158)**	**(30 037)**	**88 417**	79 296	12 314	-	(31 495)	60 115
SVP Cliff	**45 528**	**37 994**	**-**	**-**	**83 522**	-	45 528	-	-	45 528
Cash settled										
SIPRB	**2 169**	**-**	**-**	**(1 371)**	**798**	5 559	-	-	(3 390)	2 169

	Weighted average share price at exercise date during the reporting period (Shs)		**Weighted average contractual life of awards outstanding (years)**		**Weighted average fair value of options granted during the period (Shs)**	
	2022	2021	**2022**	2021	**2022**	2022
Equity settled:						
SIPP	**1 120**	-	**1**	1	**1 392**	1 018
SIPRB	**1 088**	-	**1**	1	**1 035**	1 067
SIPD	**684**	770	**1**	1	**1 392**	880
SVP Cliff	**-**	-	**2**	3	**1 392**	1 086
Cash settled						
SIPRB	**1 298**	1 007	**1**	1	**-**	-

Notes to the annual financial statements

for the year ended 31 December 2022

	Group		Bank	
35. Cash used in operations	**2022 Shs'million**	2021 Shs'million	**2022 Shs'million**	2021 Shs'million
Profit before tax for the year	**20 849**	15 549	**19 829**	14 726
Adjustments for:				
Interest paid	**6 469**	5 353	**6 608**	5 450
Interest received	**(36 732)**	(28 585)	**(36 703)**	(28 550)
Impairment loss recognised (Note 9)	**5 824**	4 087	**5 747**	4 086
Depreciation (Note 24)	**756**	769	**756**	769
Amortisation – intangible assets (Note 25)	**127**	132	**116**	120
Amortisation – leasehold land (Note 26)	**1**	1	**1**	1
Share based payments (Note 10)	**179**	96	**179**	96
Pension asset (Note 27)	**55**	13	**55**	13
Cash used in operations before working capital changes	**(2 472)**	(2 585)	**(3 412)**	(3 289)
Changes in working capital				
(Increase)/decrease in derivative assets	**(1 747)**	1 559	**(1 747)**	1 559
Decrease/(increase) in other assets	**347**	(2 341)	**499**	(2 185)
(Decrease)/ increase in derivative liabilities	**(111)**	173	**(111)**	173
Increase/(decrease) in other liabilities	**116**	3 479	**(59)**	3 370
Increase in loans and advances to customers	**(54 485)**	(28 827)	**(54 485)**	(28 827)
(Increase)/decrease in FVOCI securities	**(5 019)**	334	**(5 018)**	244
(Increase)/decrease in CBK cash reserve requirement	**(711)**	2 700	**(711)**	2 668
Decrease/(increase) in amounts due from group companies	**10 177**	(16 382)	**10 194**	(16 451)
(Decrease)/ increase in amounts due to group companies	**(6 345)**	17 114	**(6 345)**	17 077
Decrease/(increase) in financial assets at FVTPL	**1 356**	(7 856)	**1 356**	(7 856)
Decrease in retirement benefit liability	**(286)**	-	**(286)**	-
Increase in deposits from banks	**4 209**	733	**4 209**	733
Increase in customer deposits	**35 034**	15 087	**35 926**	15 828
Total changes in working capital	**(17 465)**	(14 227)	**(16 578)**	(13 667)
Cash used in operations	**(19 937)**	(16 812)	**(19 990)**	(16 956)

Notes to the annual financial statements

for the year ended 31 December 2022

36. Taxation paid	Group 2022 Shs'million	Group 2021 Shs'million	Bank 2022 Shs'million	Bank 2021 Shs'million
Tax (payable) at start of year	**(2 521)**	993	**(2 750)**	773
Current income tax expense (Note 13.1)	**(6 556)**	(5 733)	**(6 223)**	(5 473)
Prior year adjustment	**(21)**	(70)	**(32)**	(74)
Tax receivable at the end of the year	**(748)**	2 521	**(537)**	2 750
Total income taxes paid	**(9 846)**	(2 289)	**(9 542)**	(2 024)

37. Dividends paid

	Group and Bank 2022 Shs'million	Group and Bank 2021 Shs'million
Dividends payable at start of the year (2021 final proposed)	**5 975**	-
Interim dividend	**1 086**	-
Dividend waiver	**(1 466)**	-
Total dividends paid	**5 595**	-

*Dividend waiver relates to forfeited dividends by Absa Group Limited

38. Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition as follows:

	Group 2022 Shs'million	Group 2021 Shs'million	Bank 2022 Shs'million	Bank 2021 Shs'million
Cash in hand (Note 15)	**11 464**	7 730	**11 464**	7 730
Non-cash reserve ratio balances with CBK (Note 2.25.2)	**3 919**	5 200	**3 919**	5 114
Loans and advances to banks (Note 19)	**4 957**	3 007	**4 957**	3 007
	20 340	15 937	**20 340**	15 851

Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the Bank's day-to-day activities.

The amount is determined as percentage of the average outstanding customer deposits over a cash reserve cycle period of one month. At the end of year, the cash reserve ratio was 4.25% (2021: 4.25%). The Bank held Shs 12 513 million as the cash reserve (2021: Shs 11 506 million).

Notes to the annual financial statements

for the year ended 31 December 2022

39. Financial instruments

39.1. Categories of financial instruments

	Fair Value through Profit/Loss Shs'million	Fair Value through OCI - Debt instruments Shs'million	Amortised Cost - Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million	Off balance sheet financial instruments Shs'million
Group						
Assets as per Statement of Financial Position – 2022						
Cash and balances with Central Bank of Kenya	–	–	24 211	–	24 211	–
Derivative financial assets	2 867	–	–	–	2 867	–
Loans and advances to customers	–	–	283 579	–	283 579	50 459
Debt instruments	42 905	90 585	–	–	133 490	–
Loans and advances to banks	–	–	4 957	–	4 957	–
Due from group companies	–	–	8 881	–	8 881	–
Other assets	–	–	8 386	–	8 386	–
	45 772	90 585	330 014	–	466 371	50 459
Liabilities as per Statement of Financial Position - 2022						
Derivative financial liabilities	1 233	–	–	–	1 233	–
Borrowings	–	–	–	19 773	19 773	–
Deposits from banks	–	–	–	9 018	9 018	–
Deposits from customers	–	–	–	303 751	303 751	–
Due to group companies	–	–	–	60 798	60 798	–
Other liabilities	–	–	–	18 927	18 927	57 645
	1 233	–	–	412 267	413 500	57 645
Interest income	–	9 421	31 432	–	41 045	–
Interest expense	–	–	–	(8 538)	(8 538)	–
	–	9 421	31 432	(8 538)	32 507	–

Notes to the annual financial statements

for the year ended 31 December 2022

39. Financial instruments (continued)

39.1. Categories of financial instruments (continued)

	Fair Value through Profit/Loss	Fair Value through OCI- Debt instruments	Amortised Cost - Debt instruments	Amortised cost financial liabilities	Total Assets and Liabilities	Off balance sheet financial instruments
	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million
Group						
Assets as per Statement of Financial Position - 2021						
Cash and balances with Central Bank of Kenya	-	-	21 009	-	21 009	-
Derivative financial assets	1 120	-	-	-	1 120	-
Loans and advances to customers	-	-	234 234	-	234 234	55 535
Debt instruments	44 196	88 380	-	-	132 576	-
Loans and advances to banks	-	-	3 007	-	3 007	-
Due from group companies	-	-	19 058	-	19 058	-
Other assets	-	-	9 527	-	9 527	-
	45 316	88 380	286 835	-	420 531	55 535
Liabilities as per Statement of Financial Position - 2021						
Derivative financial liabilities	1 344	-	-	-	1 344	-
Borrowings	-	-	-	8 505	8 505	-
Deposits from banks	-	-	-	4 809	4 809	-
Deposits from customers	-	-	-	268 717	268 717	-
Due to group companies	-	-	-	67 143	67 143	-
Other liabilities	-	-	-	18 872	18 872	41 451
	1 344	-	-	368 046	369 390	41 451
Interest income	-	8 297	23 741	-	32 038	-
Interest expense	-	-	-	(6 781)	(6 781)	-
	-	8 297	23 741	(6 781)	25 257	-

Notes to the annual financial statements

for the year ended 31 December 2022

39. Financial instruments (continued)

39.1. Categories of financial instruments (continued)

	Fair Value through Profit/Loss Shs'million	Fair Value through OCI - Debt instruments Shs'million	Amortised Cost - Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million	Off balance sheet financial instruments Shs'million
Bank						
Assets as per Statement of Financial Position - 2022						
Cash and balances with Central Bank of Kenya	-	-	24 211	-	24 211	-
Derivative financial assets	2 867	-	-	-	2 867	-
Loans and advances to customers	-	-	283 579	-	283 579	50 459
Debt instruments	42 905	90 193	-	-	133 098	-
Loans and advances to banks	-	-	4 957	-	4 957	-
Due from group companies	-	-	9 191	-	9 191	-
Other assets	-	-	8 386	-	8 386	-
	45 772	90 193	330 324	-	466 289	50 459
Liabilities as per Statement of Financial Position - 2022						
Derivative financial liabilities	1 233	-	-	-	1 233	-
Borrowings	-	-	-	19 773	19 773	-
Deposits from banks	-	-	-	9 018	9 018	-
Deposits from customers	-	-	-	306 663	306 663	-
Due to group companies	-	-	-	60 798	60 798	-
Other liabilities	-	-	-	18 874	18 874	57 645
	1 233	-	-	415 126	416 359	57 645
Interest income	-	9 376	31 432	-	41 000	-
Interest expense	-	-	-	(8 677)	(8 677)	-
	-	9 376	31 432	(8 677)	32 323	-

Notes to the annual financial statements

for the year ended 31 December 2022

		Fair Value through Profit/Loss	Fair value through OCI - Debt instruments	Amortised Cost - Debt instruments	Amortised cost financial liabilities	Total Assets and Liabilities	Off balance sheet financial instruments
39.	**Financial instruments (continued)**						
39.1.	**Categories of financial instruments (continued)**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**
	Bank						
	Assets as per Statement of Financial Position - 2021						
	Cash and balances with Central Bank of Kenya	-	-	21 009	-	21 009	-
	Derivative financial assets	1 120	-	-	-	1 120	-
	Loans and advances to customers	-	-	234 234	-	234 234	55 535
	Debt instruments	44 196	87 972	-	-	132 168	-
	Loans and advances to banks	-	-	3 007	-	3 007	-
	Due from group companies	-	-	19 385	-	19 385	-
	Other assets	-	-	9 314	-	9 314	-
		45 316	87 972	286 949	-	420 237	55 535
	Liabilities as per Statement of Financial Position - 2021						
	Derivative financial liabilities	1 344	-	-	-	1 344	-
	Borrowings	-	-	-	8 505	8 505	-
	Deposits from banks	-	-	-	4 809	4 809	-
	Deposits from customers	-	-	-	270 737	270 737	-
	Due to group companies	-	-	-	67 143	67 143	-
	Other liabilities	-	-	-	18 762	18 762	41 451
		1 344	-	-	369 956	371 300	41 451
	Interest income	-	8 246	23 741	-	31 987	-
	Interest expense	-	-	-	(6 876)	(6 876)	-
		-	8 246	23 741	(6 876)	25 111	-

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management

40.1 Financial risk management objectives

Effective risk management and control are essential for sustainable and profitable growth

The role of risk management is to evaluate, respond to and monitor risks (the ERM process) that arise in the execution of the strategy 'to bring possibility to life'. It is essential that business growth plans are properly supported by an effective risk management infrastructure. Risk culture is closely aligned to that of the business, whilst retaining independence in analysis and objective decision-making. The Group's business involves taking on risks in a targeted manner and managing them professionally.

The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The main sources of financial risk that the Group faces arise from financial instruments, which are fundamental to the Group's business, and constitute the core of its operations.

Financial instruments create, modify or reduce the liquidity, credit, market and operational risks of the Group's statement of financial position and constitute the most significant sources of risk. Consequently, the Group devotes considerable resources to maintain effective controls to manage, measure and mitigate each of these risks and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of business. This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

The Group has clear risk management objectives and a well-established strategy to deliver them, through core risk management processes. At a strategic level, the Group's risk management objectives are to:

- Identify the Group's significant risks;
- Formulate the Group's risk appetite and ensure that business profile and plans are consistent with it;
- Optimise risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures;
- Ensure that business growth plans are properly supported by effective risk infrastructure;
- Manage risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions; and
- Help executives improve the control and co-ordination of risk taking across the business.

The Group's approach is to provide direction on:

- understanding the principal risks to achieving Group strategy;
- establishing risk appetite; and
- establishing and communicating the risk management framework.

The process is then broken down into five steps: identify, assess, control, report and manage/challenge. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it (see panel below). The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Steps	Activity
Identify	• Establish the process for identifying and understanding business-level risks
Assess	• Agree and implement measurement and reporting standards and methodologies.
Control	• Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements • Monitor the operation of the controls and adherence to risk direction and limits • Provide early warning of control or appetite breaches • Ensure that risk management practices and conditions are appropriate for the business environment
Report	• Interpret and report on risk exposures, concentrations and risk-taking outcomes • Interpret and report on sensitivities and key risk indicators • Communicate with external parties
Manage and challenge	• Review and challenge all aspects of the Bank's risk profile • Assess new risk-return opportunities • Advise on optimising the Bank's risk profile • Review and challenge risk management practices

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.1 Financial risk management objectives (continued)

Risk responsibilities

The Group achieves its risk management objectives by keeping risk management at the centre of the executive agenda and building a culture that combines risk management with everyday business decision-making. The risks arising from financial instruments to which the Bank is exposed are:

Financial risks
(a) Credit risk;
(b) Liquidity risk;
(c) Market risk

On a day-to-day basis risks are managed through a number of management committees. Through this process the Bank monitors compliance within the overall risk policy framework and ensures that the framework is kept up to date.

The Board approves risk appetite and the Board Audit and Risk Committee (BARC) monitors the Bank's risk profile against this appetite. In more detail:

- The BARC has responsibility for ensuring effective risk management and control.
- Business Heads are responsible for the identification and management of risk in their businesses.
- Business risk teams are responsible for assisting Business Heads in the identification and management of their business risk profiles for implementing appropriate controls.
- Internal Audit is responsible for the independent review of risk management and the control environment.
- The Asset and Liability Committee (ALCO) is tasked with managing financial risk, specifically liquidity, interest rates, market risk, capital management and balance sheet structure.

The Committee meets at least once a month and is instrumental in ensuring that sustainable and stable returns are obtained from the deployment of the Bank's assets within a framework of financial risks and controls. ALCO is chaired by the Managing Director and its membership comprises the Chief Financial Officer, Country Treasurer, Head of Corporate Banking, Head of Consumer Banking, the Chief Operating Officer and the Chief Risk Officer.

40.2 Credit risk

Credit risk is the risk of suffering financial loss should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. The credit risk that the Group faces arises mainly from wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with clients. Other sources of credit risk arise from trading activities, including debt securities; settlement balances with market counterparties, fair value through other comprehensive income (FVOCI) assets and reverse repurchase loans. Credit risk furthermore arises from the granting of financial guarantees or making loan commitments.

Credit risk management objectives are to:

- establish a framework of controls to ensure credit risk-taking is based on sound credit risk management principles;
- identify, assess and measure credit risk clearly and accurately across the Group and within each separate business, from the level of individual facilities up to the total portfolio;
- control and plan credit risk-taking in line with external stakeholder expectations and avoiding undesirable concentrations;
- monitor credit risk and adherence to agreed controls; and
- ensure that risk-reward objectives are met.

The Group manages credit risk by:

- Defining clear risk appetite thresholds and triggers, using applicable stress test measures.
- Ensuring maximum exposure guidelines are in place relating to the exposures to any individual customer or counterparty.
- Controlling concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups of borrowers, countries, and to industry segments.
- Clearly understanding the target market.
- Establishing risk acceptance criteria.
- Undertaking sound credit origination, monitoring and account management.
- Ensuring appropriate risk infrastructure and controls.

The Group has an established framework, and related processes, which govern its approach to credit risk management and any resultant impairment of loans and advances. The governance process includes the existence of the Credit Risk Technical Forum, Executive Risk Committee (ERC), Retail Impairment Review Committee, Scheme Loans Review Committee, Corporate and Investment Bank Models Forum, and AVAF portfolio quality Review Committee whose remit includes:

- the development, implementation and evaluation of risk and impairment models;
- periodic assessment (at least annually) of the accuracy of the models against actual results; and
- approval of new models or changes to models, in line with the model validation framework.

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

The aforementioned committees also approve post model adjustments applied to models. Retail impairment allowances are subject to quarterly impairment adequacy reviews and approval by the Retail Impairment Adequacy Forum. Wholesale impairment allowances are subject to monthly impairment adequacy reviews and approval by the Wholesale Impairment Governance Forum.

The consideration of credit risk is a fundamental process for the Group as it ultimately determines the impairment losses recognised from an accounting perspective. This section describes the processes and assumptions applied in estimating impairment.

Approach to credit modelling/internal ratings

The principal objective of credit measurement is to produce the most accurate possible quantitative assessment of credit risk to which the Group is exposed from the level of individual facilities up to the total portfolio level. Integral to this is the calculation of internal credit parameters which are used for credit risk management purposes and in the calculation of regulatory capital, economic capital and impairment requirements.

The key credit parameters used in this process are:

- probability of default (PD): the likelihood of a customer defaulting on its obligations within the appropriate outcome period;
- exposure at default (EAD): an estimate of the level of credit exposure should the customer default during the appropriate outcome period; and
- loss given default (LGD): an estimate of the percentage of EAD that will not be recovered on a particular credit facility should the customer default during the outcome period. LGD recognises credit risk mitigation, such as collateral or credit derivatives.

Internal and vendor-supplied credit models are used to estimate the key credit parameters of PD, LGD and EAD. The Group uses different modelling methodologies, ranging from pure statistical models and cash flow models to expert-based models, taking into account quantitative and qualitative risk drivers. PD, LGD and EAD estimates can be calculated to represent different views of the credit cycle, which are used in different applications. For example, PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average 12-month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months for a particular period in the credit cycle. EAD and LGD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual measures, reflecting behaviour under normal conditions.

These parameters are used for the following credit risk management purposes:

- Credit approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are frequently used as decision-making tools. In wholesale and certain retail portfolios, PD models are used to direct applications to an appropriate credit sanctioning level.
- Risk-reward and pricing: PD, EAD and LGD metrics are used to assess the profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.
- Risk appetite: Regulatory capital, economic capital and earnings volatility measures are used in the Group's risk appetite framework.
- Economic Capital calculations: Credit economic capital calculations use PD, LGD and EAD inputs.
- Risk profile reporting: Credit risk reports for senior management make use of model outputs to describe the Group's credit risk profile.

Validation of models

Models undergo independent validation when new models have been developed (initial validation) and on an annual basis (on-going validation). Models are approved by the Credit Models Forum. The most material models require approval by the AGL Models Committee (MC). The forum outputs are subject to oversight and ratification /approval by the Board Audit and Risk and Board credit committees with technical support and expertise from AGL.

Default grades

The Group uses two types of PDs, namely:

- The through-the-cycle (TTC) PD, which reflects the Group's assessment of the borrower's long-run average propensity to default in the next year; and
- The point-in-time (PIT) PD, which calculated factoring the current economic, industry and borrower circumstances.

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)
Default grades (continued)

Both types of PDs are used extensively in the Group's decision-making processes. For communication and comparison purposes, the Group's 21 default grades (DGs), were mapped to external agency rating equivalents. DG grading represents a TTC view of the distribution of the book at a specific point in time. The indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are described below:

- DG 1 – 9: assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BBB- rating or better.
- DG 10 – 19: financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies. When converted to a rating agency equivalent, these ratings correspond to a BB+ to B- rating.
- DG 20 – 21: the PD of financial assets in these grades have deteriorated to such an extent that they are included for regular review. Assets so classified must have well defined weaknesses that exacerbate the PD. These assets are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.
- Default: assets classified as in default are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Bank will sustain some loss when default occurs.

Approach to impairment of credit exposures

The measurement of ECL involves a significant level of complexity and judgement, including estimation of probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, and estimation of exposures at default and assessing significant increases in credit risk.

The calculation of ECL incorporates the probability that a credit loss will occur, as well as the probability that no credit loss occurs, even if the most likely outcome is no credit loss. The estimate reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In some cases, relatively simple modelling is considered to be sufficient, without the need to consider the outcome under different scenarios. For example, the average credit losses of a large group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will be needed.

Under IFRS 9, the Group recognises ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (12 month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (lifetime ECL). The assessment of whether an exposure should be transferred from stage 1 to stage 2, is based on whether there has been a significant deterioration in credit risk. This is a relative measure, where the credit risk at the reporting date is compared to the risk that existed upon initial recognition of the instrument. Exposures are classified within stage 3 if they are credit impaired.

For the purposes of credit modelling under IFRS 9, the PD is calculated on a Point-in-time (PIT) basis and reflects the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default. PIT PDs do not equate to a long run average. This is a key distinction between the IFRS 9 ECL models and the Group's Basel III models. Under Basel III, the PD is the average of default within the next 12 months, calculated based on the long-run historical average over the full economic cycle (that is, TTC). For IFRS 9 purposes, two distinct PD estimates are required:

- Lifetime PD: the likelihood of accounts entering default during the remaining life of the asset.
- 12 month PD: the likelihood of accounts entering default within 12 months of the reporting date.

The general approach to the IFRS 9 LGD models has been to leverage the Basel LGD models with bespoke IFRS 9 adjustments to ensure unbiased estimates. In calculating LGD, losses are discounted to the reporting date using the effective interest rate (EIR) determined at initial recognition or an approximation thereof. For debt instruments, such as loans and advances, the discount rate applied is the EIR calculated on origination or acquisition date. For financial guarantee contracts or loan commitments for which the EIR cannot be determined, losses are discounted using a rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows (to the extent that such risks have not already been taken into account by adjusting the cash shortfalls).

The EAD model estimates the exposure that an account is likely to have at any point of default in future. This incorporates both the amortising profile of a term loan, as well as behavioural patterns such as the propensity of the client to draw down on unutilised facilities in the lead up to a default event.
Expert credit judgement may, in certain instances be applied to account for situations where known or expected risk factors have not been considered in the ECL assessment or modelling process, or where uncertain future events have not been incorporated into the modelled approach. Adjustments are intended to be short term measures and will not be used to incorporate any continuous risk factors. The Group has a robust policy framework which is applied in the estimation and approval of management adjustments.

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

Retail portfolio

Ratings assigned across each retail portfolio are based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application and updated monthly thereafter. The rating is used in decisions concerning underwriting and account management, and is used to calculate regulatory capital (RC), economic capital (EC) and IFRS 9 ECL.

The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

(i) Internal risk estimates of PD, EAD and LGD are grounded in historical experience and are reliant on historical data.

(i) PDs are assigned at account level, and consist of three elements namely:
- a term structure, capturing typical default behaviour by the months since observation;
- a behavioural model which incorporates client level risk characteristics; and
- a macro-economic model that incorporates forward looking macro-economic scenarios.

(iii) EADs are assigned at an account level and are based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.

(iv) LGDs are assigned at account level and are based on the LGD pool to which the account has been assigned. Relevant historical data used in LGD estimates include observed exposure at the point of default, recovery strategies, re-defaults, cure and write-off rates. The models make use of risk drivers such as loan-to-value (LTV) and attributes that describe the underlying asset.

Wholesale portfolio

The wholesale rating process relies both on internally developed PD, EAD and LGD rating models and vendor provided solutions. The wholesale rating process relies on quantitative and qualitative assessments that could be manual or automated. Wholesale PDs and LGDs are modelled using the parameters from regulatory models as starting point. Parameters are adjusted for differences between requirements under Basel III and IFRS 9.

PD ratings are assigned on a customer level. Information used in the calculation of customer PD ratings includes financial statements, projected cash flows, equity price information, behavioural information; and qualitative assessments on strength of support, management, operating environment, industry, etc. In converting Basel III compliant PDs to PDs appropriate for the purposes of IFRS 9, the main adjustments effected comprise:

- a macroeconomic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macroeconomic conditions, thereby adjusting the PD from a seven year historical average to a PD reflective of the macroeconomic environment at the reporting date; and
- an adjustment to the regulatory PD to convert it from a PD over 12 months, to a PD over the lifetime of an exposure, to be able to assess significant increases in credit risk and estimate lifetime provisions for stage 2.

LGD estimates depend on the key drivers of recovery such as collateral value, seniority and costs involved as part of the recovery process. LGD models are based on internal and external loss data and the judgement of credit experts. EAD models aim to replicate the expected utilisation of a customer's facility should a default occur. EADs are assigned for each facility using models incorporating internal and external default data as well as the experience of credit experts in relation to particular products or customer groups.

The main adjustments to LGD comprise a macroeconomic adjustment that changes the long-run LGD to reflect a given macroeconomic scenario. Lifetime projections of LGD take into account the expected balance outstanding on a loan at the time of default, as well as the value of associated collateral at that point in time.

Definition of a significant increase in credit risk:

The Group uses various quantitative, qualitative and back stop measures as indicators of a significant increase in credit risk. The thresholds applied for each portfolio will be reviewed on a regular basis to ensure they remain appropriate. Where evidence of a significant increase in credit risk is not yet available at an individual instrument level, instruments that share similar risk characteristics are assessed on a collective basis.

Key drivers of a significant increase in credit risk include:

- Where the weighted average probability of default (PD) for an individual exposure or group of exposures as at the reporting date evidences a material deterioration in credit quality, relative to that determined on initial recognition;
- Adverse changes in payment status and where accounts are more than 30 days in arrears at reporting date. In certain portfolios a more conservative arrears rule is applied where this is found to be indicative of increased credit risk (e.g. 1 day in arrears);
- Accounts in the Retail portfolio which meet the portfolio's impairment high risk criteria; and
- The Group's watch list framework applied to the Wholesale portfolio, which is used to identify customers facing financial difficulties or where there are grounds for concern regarding their financial health.

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

Wholesale portfolio (continued)

Definition of credit impaired

Assets classified within stage 3 are considered to be credit impaired and applies when an exposure is in default. Important to the Group's definition of default, is the treatment of exposures which are classified as within forbearance. Forbearance is a concession granted to counterparty for reasons of financial difficulty that would not otherwise be considered by the Group. The definition of forbearance is not limited to measures that give rise to an economic loss (that is, a reduction in the counterparty's financial obligation).

Default within Wholesale and Retail is aligned with the regulatory definition, and therefore assets are classified as defaulted when either: The Group considers that the obligor is unlikely to pay its credit obligations without recourse by the Group to actions such as realising security. Elements to be taken as indications of unlikeliness to pay include the following:

- The Group consents to a distressed restructuring / forbearance of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness of principal, interest or fees;
- The customer is under debt review, business rescue or similar protection; or,
- Advice is received of customer insolvency or death.
- The obligor is past due 90 days or more on any credit obligation to the Group.

In addition, within the Retail portfolios:

- The Group requires an exposure to reflect at least 12 consecutive months of performance, in order to be considered to have been cured from stage 3. This probation period applies to all exposures, including those that may have been classified as defaulted for reasons other than forbearance and debt review (e.g. owing to the fact that they become more than 90 days past due).

Determination of the lifetime of a credit exposure:

The determination of initial recognition and asset duration (lifetime) are critical judgements in determining quantum of lifetime losses that apply. The date of initial recognition reflects the date that a transaction (or account) was first recognised on the statement of financial position. The PD recorded at this time provides the baseline used for subsequent determination of a significant increase in credit risk.

When determining the period over which the entity is expected to be exposed to credit risk, but for which the ECL would not be mitigated by the entity's normal credit risk management actions, the Group considers factors such as historical information and experience about:

- the period over which the entity was exposed to credit risk on similar financial instruments;
- the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- the credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

For asset duration, the approaches which are applied (in line with IFRS 9 requirements) are:

- Term lending: the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected settlement and amortisation); and
- Revolving facilities: for Retail portfolios, asset duration is based on behavioural life and this is normally greater than contractual life. For Wholesale portfolios, a sufficiently long period to cover expected life modelled and an attrition rate is applied to cater for early settlement.

Macroeconomic scenarios

The Group's IFRS 9 impairment models consume macroeconomic information to enable the models to provide an output that is based on forward-looking information. The determination of initial recognition and asset duration (lifetime) are critical judgements in determining quantum of lifetime losses that apply. The date of initial recognition reflects the date that a transaction (or account) was first recognised on the statement of financial position. The PD recorded at this time provides the baseline used for subsequent determination of a significant increase in credit risk.

ECL estimation must reflect an unbiased and probability-weighted estimate of future losses. This is determined by evaluating a range of possible macroeconomic outcomes. While economic activity across had started to recover due to the easing of lockdown restrictions, economic growth has slowed down weighed by rising inflation and lending rates as well as below-average crop yields due to the protracted drought. Accordingly, these risks have been incorporated in the scenarios used to calculate the Group's ECL charge as at 31 December 2022.

Several factors are considered in developing macroeconomic scenarios, including economic growth or contraction and anticipated recovery, expected inflation, sector-specific impacts, business confidence, property prices, household spending, exchange rate fluctuations, unemployment rates, key fiscal responses initiated by governments, and regulatory authorities.

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

Wholesale portfolio (continued)

Incorporation of forward-looking information into the IFRS 9 modelling

The following table shows the key forecast assumptions used to calculate the Group's ECL allowance for the reporting period ended 31 December 2022:

	Baseline					Mild upside					Mild downside				
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
Real GDP (%)	5.3	5.0	5.2	5.5	5.5	4.0	3.7	4.0	4.3	4.3	6.0	6.5	6.5	7.0	7.0
CPI (%)	7.5	4.5	4.6	4.7	4.7	8.0	6.2	6.3	6.5	6.5	7.0	3.5	3.7	3.9	3.9
Average policy rate (%)	7.5	8.8	8.8	8.8	8.8	7.61	10.4	10.8	11.4	11.4	7.4	8.0	8.0	8.0	8.0

The following table shows the key forecast assumptions for the three economic scenarios as at 31 December 2021:

	Baseline					Mild upside					Mild downside				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Real GDP (%)	4.4	5.5	5.3	5.1	5.0	5.5	6.5	6.5	6.8	6.7	2.6	3.1	3.7	4.1	4.4
CPI (%)	6.0	5.4	5.1	4.8	4.4	5.7	4.0	3.5	3.2	3.0	6.3	6.2	6.0	5.9	5.5
Average policy rate (%)	7.0	7.2	8.0	8.3	8.3	6.9	6.9	7.3	7.6	7.8	7.1	7.7	8.5	9.0	9.3

GDP expanded by 2.9% in Q4,2022 slower than at 4.7% in Q3,2022 weighed down by food security concerns, inflationary pressures and a weakening Shilling. There was notable growth in key sectors including accommodation and food, trade, professional and administrative support and finance and insurance. The IMF, upon completion of their fourth review of the arrangements under the ECF/EFF facility noted that the economy remained resilient, projecting a GDP growth of 5.3% in 2022 marginally lower than the National Treasury forecast of 5.5%. The report stated that growth prospects were bolstered by fiscal consolidation efforts, austerity measures to tame runaway expenditure, double-digit export growth and improve tax revenues. They added that while the medium-term outlook remained favourable, downside risks predominate in the near term due to global inflationary pressures and climate-related risks.

The y/y inflation declined to 9.10% in December from a peak of 9.60% in October, bringing the yearly average to 7.6%. The figure remains elevated largely driven by continued high food and energy prices. Key indices that recorded the highest increases include food and non-alcoholic beverages (13.8%); transport (13.0%); furnishings and household maintenance (9.9%).

Compared with the prior period, overall CPI index inched higher 0.5% to 128.99 in December. Upside inflationary pressures remain a concern in the near term owing to elevated global energy costs, a weaker Shilling and on scaling back of government price support measures especially the electricity subsidy. However, fertilizer subsidies, import duty waivers on maize and rice should offer some relief while the Central Bank's tightening stance should keep inflation expectations well-anchored.

The CBR rate was hiked 50bps to 8.75% (175bps hike YoY) while the CRR was maintained at 4.25% from the MPC meeting in November 2022. The Committee resolved to monitor the outcome of its previous policy decisions as well as recent economic developments in the global and domestic economy and subsequently institute additional measures as necessary. MPC decisions likely to be informed by inflation dynamics and exogenous pressures as global Central banks maintain a hawkish path.

Compared with the prior period, overall CPI index inched higher 0.5% to 128.99 in December. Upside inflationary pressures remain a concern in the near term owing to elevated global energy costs, a weaker Shilling and on scaling back of government price support measures especially the electricity subsidy. However, fertilizer subsidies, import duty waivers on maize and rice should offer some relief while the Central Bank's tightening stance should keep inflation expectations well-anchored.

Sensitivity of expected credit losses

Given the level of uncertainty required in the determination of ECL, the Group has conducted a sensitivity analysis in order to indicate the impact on the ECL when assigning a probability weighting of 100% to each macroeconomic variable scenario. The analysis only reflects the impact of changing the probability assigned to each scenario to a 100% and does not include management adjustments required to provide a more appropriate assessment of risk.

Impairment losses	Shs' million
Baseline	5 899
Downside	10 547

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

Risk limit control and mitigation policies (continued)

Macro Impacts Decision Framework Overview

Below is an overview of the decision framework structure required to assess the macro impacts, determine the respective Management Adjustments (MA)

Step 1 – Assess the existing Macro-economic (MEV) model

Step 2 – Analyse the impacts from using

i. Current MEV models used as the primary basis for the MA's

ii. MEV model + Judgement used as a base with specific MA's to address model shortfalls.

iii. Expert Judgement - Rebuild model with fewer / alternative variables ,Replace model scalars with more representative scalars based on assessments as an Alternative approach to incorporating MEV

Step 3 – Sense check on outputs

Step 4 – Approval of adjustments through appropriate governance

Step 5 – Management Adjustments monitoring

The above framework is to provide a consistent approach to determine Management Adjustments and follow an auditable process with clear governance throughout the process in line with the Banks policy.

Concentrations of credit risk

TThe Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and banks, and to industries and countries.

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

Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

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

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Collateral

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.

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.1 Maximum credit risk exposure

Group and Bank		12 months expected credit losses – stage 1			Lifetime expected credit losses – stage 2			Credit impaired – stage 3
	Gross Maximum Exposure Shs'million	DG1-9 Shs'million	DG 10-19 Shs'million	DG 20-21 Shs'million	DG1-9 Shs'million	DG 10-19 Shs'million	DG 20-21 Shs'million	DG 20 – 22 Shs'million
2022								
Balances with Central Bank of Kenya	**12 752**	**12 752**	**–**	**–**	**–**	**–**	**–**	**–**
Financial assets at FVTPL	**42 905**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivative financial assets	**2 867**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Investment securities designated at FVOCI	**90 585**	**90 585**	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to banks	**4 960**	**4 960**	**–**	**–**	**–**	**–**	**–**	**–**
Balances due from group companies	**8 881**	**8 609**	**272**	**–**	**–**	**–**	**–**	**–**
Other assets	**8 386**	**–**	**8 386**	**–**	**–**	**–**	**–**	**–**
Loans and advances to customers	**302 125**	**18 856**	**224 768**	**2 253**	**–**	**19 855**	**9 507**	**26 886**
Total gross maximum exposure to credit risk	**473 461**	**135 762**	**233 426**	**2 253**	**–**	**19 855**	**9 507**	**26 886**
Impairment losses	**(18 554)**	**(24)**	**(3 856)**	**(277)**	**–**	**(395)**	**(2 824)**	**(11 178)**
Total financial assets per the statement of financial position	**454 907**	**135 738**	**229 570**	**1 976**	**–**	**19 460**	**6 683**	**15 708**
Off balance sheet exposure	**108 104**	**–**	**90 624**	**40**	**–**	**16 651**	**684**	**105**

Notes to the annual financial statements
for the year ended 31 December 2022

40. Risk management (continued)
40.2 Credit risk (continued)
40.2.1 Maximum credit risk exposure (continued)

Group and Bank		12 months expected credit losses - stage 1			Lifetime expected credit losses - stage 2			Credit impaired - stage 3
	Gross Maximum Exposure	DG1-9	DG 10-19	DG 20-21	DG1-9	DG 10-19	DG 20-21	DG 20 – 22
	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million
2021								
Balances with Central Bank of Kenya	13 283	10 342	2 941	-	-	-	-	-
Financial assets at FVTPL	44 196	-	-	-	-	-	-	-
Derivative financial assets	1 120	-	-	-	-	-	-	-
Investment securities designated at FVOCI	88 481	88 481	-	-	-	-	-	-
Loans and advances to banks	3 019	3 019	-	-	-	-	-	-
Balances due from group companies	19 058	9 000	10 058	-	-	-	-	-
Other assets	9 178	-	9 178	-	-	-	-	-
Loans and advances to customers	251 737	23 571	185 352	1 575	-	14 935	7 487	18 817
Total gross maximum exposure to credit risk	430 072	134 413	207 529	1 575	-	14 935	7 487	18 817
Impairment losses	(17 503)	(133)	(3 506)	(193)	-	(359)	(3 075)	(10 237)
Total financial assets per the statement of financial position	412 569	134 280	204 023	1 382	-	14 576	4 412	8 580
Off balance sheet exposure	96 986	9 055	68 378	4	-	18 619	880	50

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.2 Analysis of credit risk mitigation and collateral

Group and Bank

2022		Collateral – credit impaired financial assets			
	Exposure relating to on SOFP Shs' million	**Guarantees credit insurance and credit derivatives Shs' million**	**Physical collateral Shs' million**	**Cash collateral Shs' million**	**Other Shs' million**
Balances with Central Bank of Kenya	**12 752**	**–**	**–**	**–**	**–**
Financial assets at fair value through other comprehensive income	**90 585**	**–**	**–**	**–**	**–**
Derivative financial assets	**2 867**	**–**	**–**	**–**	**–**
Financial assets at fair value through profit or loss	**42 905**	**–**	**–**	**–**	**–**
Loans and advances to banks	**4 960**	**–**	**–**	**–**	**–**
Other assets	**8 386**	**–**	**–**	**–**	**–**
Loans and advances to customers	**302 125**	**214**	**6 530**	**4 485**	**2 379**
Credit exposures relating to off-balance sheet items	**108 104**	**–**	**37**	**–**	**2**
Balances due from group companies	**8 881**	**–**	**–**	**–**	**–**
	581 565	**214**	**6 567**	**4 485**	**2 381**
2021					
Balances with Central Bank of Kenya	13 283	-	-	-	-
Financial assets at fair value through other comprehensive income	88 481	-	-	-	-
Derivative financial assets	1 120	-	-	-	-
Financial assets at fair value through profit or loss	44 196	-	-	-	-
Loans and advances to banks	3 019	-	-	-	-
Other assets	9 178	-	-	-	-
Loans and advances to customers	251 737	185	5 409	3	52
Credit exposures relating to off-balance sheet items	96 986	-	8	-	-
Balances due from group companies	19 058	-	-	-	-
	527 058	185	5 417	3	52

Notes to the annual financial statements

for the year ended 31 December 2022

	Collateral – All other financial assets					
Unsecured	Guarantees credit insurance and credit derivatives	Physical collateral	Cash collateral	Other	Unsecured	Net exposure
Shs' million	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million
–	**–**	**–**	**–**	**–**	**–**	**12 752**
–	**–**	**–**	**–**	**–**	**–**	**90 585**
–	**–**	**–**	**–**	**–**	**–**	**2 867**
–	**–**	**–**	**–**	**–**	**–**	**42 905**
–	**–**	**–**	**–**	**–**	**–**	**4 960**
–	**–**	**–**	**–**	**–**	**–**	**8 386**
2 644	**24 415**	**73 894**	**1 046**	**305**	**186 213**	**–**
66	**31**	**2 386**	**108**	**209**	**54 805**	**50 460**
–	**–**	**–**	**–**	**–**	**–**	**8 881**
2 710	**24 446**	**76 280**	**1 154**	**514**	**241 018**	**221 796**
-	-	-	-	-	-	13 283
-	-	-	-	-	88 481	-
-	-	-	-	-	-	1 120
-	-	-	-	-	-	44 196
-	-	-	-	-	-	3 019
-	-	-	-	-	-	9 178
13 173	8 224	28 209	664	938	194 880	-
37	3 166	9 179	813	904	69 775	13 104
-	-	-	-	-	-	19 058
13 210	11 390	37 388	1 477	1 842	353 136	102 958

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.3 Industry analysis

Group and Bank **2022**	**Financial services** **Shs' million**	**Government** **Shs' million**	**Manufacturing** **Shs' million**	**Wholesale and retail trade** **Shs' million**	**Transportation and communication** **Shs' million**	**Agricultural** **Shs' million**	**Private individuals** **Shs' million**	**Other** **Shs' million**	**Total** **Shs' million**
Financial assets									
Cash and balances with Central Bank of Kenya	**–**	**24 211**	**–**	**–**	**–**	**–**	**–**	**–**	**24 211**
Loans and advances to banks	**4 957**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4 957**
Derivative financial instruments	**2 067**	**–**	**440**	**35**	**45**	**246**	**–**	**34**	**2 867**
Financial assets at FVTPL	**–**	**42 905**	**–**	**–**	**–**	**–**	**–**	**–**	**42 905**
Financial assets at FVOCI	**–**	**90 585**	**–**	**–**	**–**	**–**	**–**	**–**	**90 585**
Loans and advances to customers	**6 145**	**–**	**64 219**	**57 039**	**6 803**	**12 181**	**110 640**	**26 552**	**283 579**
	13 169	**157 701**	**64 659**	**57 074**	**6 848**	**12 427**	**110 640**	**26 586**	**449 104**
2021									
Cash and balances with Central Bank of Kenya	-	21 009	-	-	-	-	-	-	21 009
Loans and advances to banks	3 007	-	-	-	-	-	-	-	3 007
Derivative financial instruments	524	-	40	-	6	436	-	114	1 120
Financial assets at FVTPL	-	44 196	-	-	-	-	-	-	44 196
Financial assets at FVOCI	-	88 380	-	-	-	-	-	-	88 380
Loans and advances to customers	4 652	-	45 525	40 624	6 780	9 325	102 239	25 089	234 234
	8 183	153 585	45 565	40 624	6 786	9 761	102 239	25 203	391 946

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.4 Loans and advances to customers

The total impairment provision for loans and advances represents both individually impaired loans and loans assessed on a portfolio basis. An analysis of changes in the gross carrying amount and the corresponding ECL allowances for the Group and Bank is, as follows:

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Gross carrying amount at 1 January 2022	**210 499**	**21 394**	**19 844**	**251 737**
Transfer to Stage 1	**2 396**	**(2 168)**	**(228)**	**-**
Transfer to Stage 2	**(10 083)**	**10 187**	**(104)**	**-**
Transfer to Stage 3	**(2 622)**	**(3 332)**	**5 954**	**-**
Financial assets that have been derecognised	**(78 033)**	**(11 676)**	**(1 717)**	**(91 426)**
Write-offs	**-**	**-**	**(4 380)**	**(4 380)**
New financial assets originated	**123 718**	**14 958**	**7 518**	**146 193**
Gross carrying amount at 31 December 2022	**245 875**	**29 363**	**26 887**	**302 125**
Gross carrying amount at 1 January 2021	179 427	29 398	16 469	225 294
Transfer to Stage 1	4 415	(4 226)	(189)	-
Transfer to Stage 2	(4 751)	4 847	(96)	-
Transfer to Stage 3	(3 731)	(1 999)	5 730	-
Financial assets that have been derecognised	(78 974)	(13 355)	(4 085)	(96 414)
Write-offs	-	-	(2 872)	(2 872)
New financial assets originated	114 113	6 729	4 887	125 729
Gross carrying amount at 31 December 2021	210 499	21 394	19 844	251 737

The weighted average effective interest rate on loans and advances at 31 December 2022 was 11% (2021: 9.7%).

	Collectively assessed			
	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Loss allowance at 1 January 2022	**2 805**	**2 788**	**6 346**	**11 939**
Transfer to Stage 1	**931**	**(700)**	**(231)**	**-**
Transfer to Stage 2	**(78)**	**169**	**(91)**	**-**
Transfer to Stage 3	**(58)**	**(860)**	**918**	**-**
Financial assets that have been derecognised	**(969)**	**(424)**	**(3 072)**	**(4 465)**
Write-offs	**-**	**-**	**(4 094)**	**(4 094)**
New financial assets originated	**695**	**1 688**	**6 571**	**8 954**
Impairment losses at 31 December 2022	**3 326**	**2 661**	**6 347**	**12 334**
Loss allowance at 1 January 2021	2 855	2 024	5 820	10 699
Transfer to Stage 1	87	(83)	(4)	-
Transfer to Stage 2	(32)	33	(1)	-
Transfer to Stage 3	(16)	(142)	158	-
Financial assets that have been derecognised	(1 553)	(110)	(2 032)	(3 695)
Write-offs	-	-	(2 872)	(2 872)
New financial assets originated	1 464	1 066	5 277	7 807
Impairment losses at 31 December 2021	2 805	2 788	6 346	11 939

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.4 Loans and advances to customers (continued)

	Individually assessed			
	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Impairment losses at 1 January 2022	**581**	**649**	**4 333**	**5 563**
Transfer to Stage 1	**70**	**(70)**	**-**	**-**
Transfer to Stage 2	**(41)**	**41**	**-**	**-**
Transfer to Stage 3	**(10)**	**(72)**	**82**	**-**
Financial assets that have been derecognised	**(182)**	**(333)**	**(230)**	**(745)**
Write-offs	**-**	**-**	**(118)**	**(118)**
New financial assets originated	**405**	**343**	**764**	**1 512**
Impairment losses at 31 December 2022	**823**	**558**	**4 831**	**6 212**
Impairment losses at 1 January 2021	926	786	4 029	5 741
Transfer to Stage 1	129	(129)	-	-
Transfer to Stage 2	(1)	1	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	(849)	(326)	(134)	(1 309)
Write-offs	-	-	-	-
New financial assets originated	376	317	438	1 131
Impairment losses at 31 December 2021	581	649	4 333	5 563

40.2.5 Cash and balances with Central Bank of Kenya

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Gross carrying amount at 1 January 2022	**13 283**	**-**	**-**	**13 283**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**(531)**	**-**	**-**	**(531)**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**-**	**-**	**-**	**-**
Gross carrying amount at 31 December 2022	**12 752**	**-**	**-**	**12 752**
Gross carrying amount at 1 January 2021	12 435	-	-	12 435
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	848	-	-	848
Gross carrying amount at 31 December 2021	13 283	-	-	13 283

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.5 Cash and balances with Central Bank of Kenya (continued)

	Individually assessed			
	Stage 1 Shs'million	**Stage 2 Shs'million**	**Stage 3 Shs'million**	**Total Shs'million**
Impairment losses at 1 January 2022	4	-	-	**4**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	**1**	-	-	**1**
Impairment losses at 31 December 2022	**5**	-	-	**5**
Impairment losses at 1 January 2021	4	-	-	4
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	-	-	-	-
Impairment losses at 31 December 2021	4	-	-	4

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.6 Loans and advances to Bank

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Loans and advances to Bank				
Gross carrying amount at 1 January 2022	**3 018**	**-**	**-**	**3 018**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**-**	**-**	**-**	**-**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**1 939**	**-**	**-**	**1 939**
Gross carrying amount at 31 December 2022	**4 957**	**-**	**-**	**4 957**
Gross carrying amount at 1 January 2021	5 648	-	-	5 648
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	(2 630)	-	-	(2 630)
Write-offs	-	-	-	-
New financial assets originated	-	-	-	-
Gross carrying amount at 31 December 2021	3 018	-	-	3 018
Impairment losses at 1 January 2022	**12**	**-**	**-**	**12**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**(9)**	**-**	**-**	**(9)**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**-**	**-**	**-**	**-**
Impairment losses at 31 December 2022	**3**	**-**	**-**	**3**
Impairment losses at 1 January 2021	-	-	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	12	-	-	12
Impairment losses at 31 December 2021	12	-	-	12

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.7 Financial assets at FVOCI

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Gross carrying amount at 1 January 2022	**88 481**	**-**	**-**	**88 481**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**-**	**-**	**-**	**-**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**2 104**	**-**	**-**	**2 104**
Gross carrying amount at 31 December 2022	**90 585**	**-**	**-**	**90 585**
Gross carrying amount at 1 January 2021	89 799	-	-	89 799
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	(1 318)	-	-	(1 318)
Write-offs	-	-	-	-
New financial assets originated	-	-	-	-
Gross carrying amount at 31 December 2021	88 481	-	-	88 481
Impairment losses 1 January 2022	**101**	**-**	**-**	**101**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**(5)**	**-**	**-**	**(5)**
New financial assets originated	**-**	**-**	**-**	**-**
Impairment losses at 31 December 2022	**96**	**-**	**-**	**96**
Impairment losses at 1 January 2021	117	-	-	117
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	(16)	-	-	(16)
New financial assets originated	-	-	-	-
Impairment losses at 31 December 2021	101	-	-	101

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.8 Credit exposures relating to off-balance sheet position items

For financial guarantees, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	Group and Bank	
	2022 Shs'million	2021 Shs'million
Financial guarantee contracts	**22 241**	19 702
Irrevocable debt facilities	**50 460**	55 535
Letters of credit	**35 403**	21 749
	108 104	96 986

40.3 Market risk

Market risk is the risk that the Group's earnings, capital or business objectives will be adversely impacted by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads and comprises:-

Traded market risk

The risk of the Group being impacted by changes in the level or volatility of positions in its trading books, primarily in the Investment Bank. The risk arises primarily as a result of client facilitation in wholesale markets. This involves market making, risk management solutions and execution of syndications. Mismatches between client transactions and hedges result in market risk. Trading risk is measured for the trading book, as defined for regulatory purposes and certain banking books. Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as in the trading book, but the associated sensitivities are reported separately as "interest rate risk in the banking book".

Non-traded market risk:

The risk of the Group being exposed to interest rate risk arising from loans, deposits and similar instruments held for longer term strategic purposes rather than for the purpose of profiting from changes in interest rates. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's fair value through profit or loss and FVOCI financial assets.

Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Bank Treasury is responsible for the development of detailed risk management policies and for day-to-day implementation of those policies.

Furthermore it includes the protection and enhancement of the statement of financial position and statement of comprehensive income and facilitating business growth within a controlled and transparent risk management framework.

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (95%). There is therefore a specified statistical probability (5%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (1 day). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 1-day periods in the past. The Bank's assessment of past movements is based on data for the past five years. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VAR constitutes an integral part of the Bank's market risk control regime, VAR limits are established by the Board annually for all trading portfolio operations and allocated to business units. Actual exposure against limits is reviewed daily by the Bank's trading desk. The daily VAR for the Bank closed the year at Shs 25.2 million (2021: Shs 30.5 million).

Stress tests

The Bank applies a 'Stress test' methodology to its non-trading book. Interest rate risk in the non-trading book is measured through the use of interest rate repricing gap analysis. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The results of the stress tests are reviewed by heads of business unit and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.4 Foreign currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign exchange risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in millions of Kenyan Shillings):

	Group and Bank	
	Assets Shs'million	**Liabilities Shs'million**
The carrying amounts of the Bank's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:		
2022		
USD	**259 045**	**259 511**
GBP	**9 000**	**8 996**
Euro	**38 953**	**38 951**
JPY	**1 876**	**1 874**
CHF	**251**	**250**
ZAR	**671**	**677**
Other	**312**	**214**
	310 108	**310 473**

	Group and Bank	
	Assets Shs'million	Liabilities Shs'million
2021		
USD	155 960	157 566
GBP	6 603	6 546
Euro	29 843	29 845
JPY	1 653	1 669
CHF	188	186
ZAR	119	122
Other	242	202
	194 608	196 136

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.4 Foreign currency risk (continued)

The following table details the Bank's sensitivity to a 10% increase and decrease in the Kenyan Shilling against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end of a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Shilling strengthens 10% against the relevant currency. For a 10% weakening of the Shilling against the relevant currency, there would be a comparable impact on the profit and other equity, and the balance below would be negative.

	2022 Profit of loss Shs' million	2021 Profit of loss Shs' million
Assets		
USD	**25 905**	15 596
GBP	**900**	660
Euro	**3 895**	2 984
JPY	**188**	165
CHF	**25**	19
ZAR	**67**	12
Other	**31**	24
Liabilities		
USD	**(25 951)**	(15 757)
GBP	**(900)**	(655)
Euro	**(3 895)**	(2 985)
JPY	**(187)**	(167)
CHF	**(25)**	(19)
ZAR	**(68)**	(12)
Other	**(21)**	(20)
Effect on profit before tax	**(36)**	(155)
Income tax effect at 30%	**11**	47
Effect of 10% change on equity	**(25)**	(108)

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.5 Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The responsibility of managing risk lies with the Assets and Liabilities Committee ("ALCO"). Through this process the Group monitors compliance within the overall risk policy framework and ensures that the framework is kept up to date. Risk management information is provided on a regular basis to the Country Management Committee (CMC) and the Board.

Interest rate risk arises due to re-pricing differences between assets, liabilities and equity, originating from the provision of retail and wholesale banking products and services (considered core banking activities), together with certain rate insensitive exposures within the balance sheet. This risk impacts both the earnings and economic value of the Bank.

40.5.1 Interest rate benchmark reform

Background

A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The GBP, EUR and JPY LIBOR rates and the one-week and two-month USD LIBOR rates have been discontinued as at 31 December 2021. The remaining USD LIBOR rate is expected to be discontinued post 30 June 2023. The Central Bank of Kenya is working with the domestic financial market industry regarding the transition by providing guidance focussing on four main areas; (a) Governance, (b) Monitoring, communications and training, (c) Risks and mitigations, (d) System changes, testing and preparedness. All banks are required to make monthly submissions to the Central Bank of Kenya on their transition status.

The Group's IBOR transition steering committee which comprises a series of business and function workstreams, with oversight and coordination provided by a central project team is currently managing the transition. Workstreams actively participate in industry-wide working groups to remain informed of the latest developments and to ensure consistency with the approaches of other market participants.

The main risks to which the Group is exposed as result of IBOR reform are operational as detailed below:

The GBP Libor, EUR Libor, JPY Libor and US Libor have transitioned to the Sterling Overnight Index Average (SONIA), Euro Short-Term Rate (€STR), Tokyo Overnight Average Rate (TONAR) and Secured Overnight Financing Rate (SOFR) respectively as alternative reference rates.

The Group's IBOR transition steering committee which comprises a series of business and function workstreams, with oversight and coordination provided by a central project team is currently managing the transition. Workstreams actively participate in industry-wide working groups to remain informed of the latest developments and to ensure consistency with the approaches of other market participants.

Conduct risk: The transition to alternative benchmark rates could result in the risk of market or customer misconduct, which may lead to customer complaints, regulatory sanctions or reputational impact. This includes the risk of misleading clients, anti-competitive practices, both during and after transition (such as collusion and information sharing) and risks arising from conflicts of interest.

Pricing and Valuation considerations: International Securities and Derivatives Association ("ISDA") published the IBOR Fallbacks Supplement and ISDA 2020 IBOR Fallbacks Protocol on 23 October 2020. New fallbacks for derivatives linked to key IBORs came into effect on 25 January 2021, ensuring a viable safety net is in place in the event an IBOR becomes permanently unavailable while entities continue to have exposure to that rate. The supplement incorporates the fallbacks into all new non-cleared derivatives contracts from 25 January 2021 that reference the 2006 ISDA Definitions. Derivative participants can incorporate the fallback into legacy non-cleared derivatives contracts via use of an ISDA protocol or through bilateral negotiation. For cleared derivatives, central counterparties (CCPs) have incorporated the ISDA IBOR fallbacks in their rule books for both new and legacy contracts.

Accounting: If transition to alternative benchmark rates for certain contracts is finalised in a manner that does not permit the application of the reliefs introduced in the Phase 2 amendments, this could lead to discontinuation of hedge accounting relationships, increased volatility in profit or loss if re-designated hedges are not fully effective and volatility in the profit or loss if non-derivative financial instruments are modified or derecognised. The Group is aiming to agree changes to contracts that would allow IFRS 9 reliefs to apply. In particular, the Group is not seeking to novate derivatives or close out derivatives and enter into new on-market derivatives where derivatives have been designated in hedging relationships.

Litigation risk: If no agreement is reached to implement the interest rate benchmark reform on existing contracts, (e.g. arising from differing interpretation of existing fallback terms), there is a risk of litigation and prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working proactively with all counterparties to minimise this risk from occurring.

Operational risk: The Group's IT systems are undergoing upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time resulting in additional manual procedures which give rise to operational risks.

The Group is managing these risks and has established a Libor Benchmark Reform Project with various workstreams overseeing the transition of the Libors to the alternative reference rates i.e. Customer Engagement, Legal Remediation, Product Lifecycle and System Readiness workstreams looking at the relevant aspects of the Project and a Project SteerCo responsible for overall oversight to ensure that achievement of the milestones and activities are on track.

The Group will be transitioning the existing USD facilities referencing USD Libor to USD SOFR by end of June 2023 as USD Libor will be abolished by June 2023.

The Group will continue to apply the Phase 1 amendments to IFRS 9 until the uncertainty on the timing and amount of cash flows arising from interest rate benchmark reform ends. It is expected that this uncertainty will continue until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread.

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.5 Interest rate risk (continued)

40.5.1 Interest rate benchmark reform (continued)

Consolidated Statement of Financial Position Summary – IBOR Reform Note

Carrying values of financial instruments impacted by benchmark reform and yet to transition

	USD LIBOR Shs'million
Non-derivative assets[1]	16 630
	16 630

Financial instrument modifications due to IBOR reforms

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changes as a result of interest rate benchmark reform, then the Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform if the following conditions are met; the change is necessary as a direct consequence of the reform; and the new basis for determining the contractual cash flows is economically equivalent to the previous basis i.e. the basis immediately before the change.

1Includes both on balance sheet and off-balance sheet exposures. Carrying amounts for on balance sheet and notional amounts for off-balance sheet have been included.

40.5.2 Interest rate sensitivity analysis

Group 2022	Up to 1 month Shs'million	1 - 3 months Shs'million	4 - 12 months Shs'million	Over 1 year Shs'million	Non-interest bearing Shs'million	Total Shs'million
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	24 211	24 211
Financial assets at fair value through profit or loss	-	12 268	553	22 406	7 678	42 905
Financial assets at fair value through other comprehensive income	1 017	4 000	19 867	65 701	-	90 585
Deposits and balances due from banking institutions	4 957	-	-	-	-	4 957
Due from group companies	8 608	-	-	-	273	8 881
Loans and advances to customers	214 992	2 854	13 107	52 626	-	283 579
Total assets	**229 574**	**19 122**	**33 527**	**140 733**	**32 162**	**455 118**
Liabilities						
Deposits and balances due to banking institutions	9 018	-	-	-	-	9 018
Due to group companies	3 959	24 270	5 549	27 020	-	60 798
Customer deposits	99 115	45 523	60 528	98 585	-	303 751
Borrowings	-	-	19 773	-	-	19 773
Total liabilities and equity	**112 092**	**69 793**	**85 850**	**125 605**	**-**	**393 340**
Interest rate sensitivity gap	**117 482**	**(50 671)**	**(52 323)**	**15 128**	**32 162**	**61 778**

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.5 Interest rate risk (continued)

40.5.2 Interest rate sensitivity analysis (continued)

Bank 2022	**Up to 1 month Shs'million**	**1 - 3 months Shs'million**	**4 - 12 months Shs'million**	**Over 1 year Shs'million**	**Non-interest bearing Shs'million**	**Total Shs'million**
Assets						
Cash and balances with Central Bank of Kenya	**-**	**-**	**-**	**-**	**24 211**	**24 211**
Financial assets at fair value through profit or loss	**-**	**12 268**	**553**	**22 406**	**7 678**	**42 905**
Financial assets at fair value through other comprehensive income	**1 017**	**4 000**	**19 867**	**65 309**	**-**	**90 193**
Deposits and balances due from banking institutions	**4 957**	**-**	**-**	**-**	**-**	**4 957**
Due from group companies	**8 918**	**-**	**-**	**-**	**273**	**9 191**
Loans and advances to customers	**214 992**	**2 854**	**13 107**	**52 626**	**-**	**283 579**
Total assets	**229 884**	**19 122**	**33 527**	**140 341**	**32 162**	**455 036**
Liabilities						
Deposits and balances due to banking institutions	**9 018**	**-**	**-**	**-**	**-**	**9 018**
Due to group companies	**3 959**	**24 270**	**5 549**	**27 020**	**-**	**60 798**
Customer deposits	**99 115**	**45 523**	**60 528**	**98 585**	**-**	**303 751**
Borrowings	**-**	**-**	**19 773**	**-**	**-**	**19 773**
Total liabilities and equity	**112 092**	**69 793**	**85 850**	**125 605**	**-**	**393 340**
Interest rate sensitivity gap	**117 792**	**(50 671)**	**(52 323)**	**14 736**	**32 162**	**61 696**

Group 2021	**Up to 1 month Shs'million**	**1 - 3 months Shs'million**	**4 - 12 months Shs'million**	**Over 1 year Shs'million**	**Non-interest bearing Shs'million**	**Total Shs'million**
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	21 009	21 009
Financial assets at fair value through profit or loss	1 282	6 020	15 433	21 461	-	44 196
Financial assets at fair value through other comprehensive income	3 671	4 003	14 621	66 085	-	88 380
Deposits and balances due from banking institutions	3 007	-	-	-	-	3 007
Due from group companies	10 058	-	9 000	-	-	19 058
Loans and advances to customers	192 794	1 130	5 092	15 022	20 196	234 234
Total assets	210 812	11 153	44 146	102 568	41 205	409 884
Liabilities						
Deposits and balances due to banking institutions	4 809	-	-	-	-	4 809
Due to group companies	14 741	16 462	35 940	-	-	67 143
Customer deposits	101 421	11 955	33 006	23 799	98 536	268 717
Borrowings	-	8 486	-	-	-	8 486
Total liabilities and equity	120 971	36 903	68 946	23 799	98 536	349 155
Interest rate sensitivity gap	89 841	(25 750)	(24 800)	78 769	(57 331)	60 729

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.5 Interest rate risk (continued)

40.5.2 Interest rate sensitivity analysis (continued)

Bank 2021	Up to 1 month Shs'million	1 - 3 months Shs'million	4 - 12 months Shs'million	Over 1 year Shs'million	Non-interest bearing Shs'million	Total Shs'million
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	21 009	21 009
Financial assets at fair value through profit or loss	1 282	6 020	15 433	21 461	-	44 196
Financial assets at fair value through other comprehensive income	3 671	4 003	14 621	65 677	-	87 972
Deposits and balances due from banking institutions	3 007	-	-	-	-	3 007
Due from group companies	10 385	-	9 000	-	-	19 385
Loans and advances to customers	192 794	1 130	5 092	15 022	20 196	234 234
Total assets	211 139	11 153	44 146	102 160	41 205	409 803
Liabilities						
Deposits and balances due to banking institutions	4 809	-	-	-	-	4 809
Due to group companies	14 741	16 462	35 940	-	-	67 143
Customer deposits	101 421	11 955	33 006	23 799	98 536	268 717
Borrowings	-	8 486	-	-	-	8 486
Total liabilities and equity	120 971	36 903	68 946	23 799	98 536	349 155
Interest rate sensitivity gap	90 168	(25 750)	(24 800)	78 361	(57 331)	60 648

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Group	1% Increase in interest rate 2022 Shs'million	1% Decrease in interest rates 2022 Shs'million	1% Increase in interest rate 2021 Shs'million	1% Decrease in interest rates 2021 Shs'million
Changes in interest				
Increase/(decrease) in interest received	**2 585**	**(2 581)**	2 303	(1 789)
Increase/(decrease) in interest paid	**(1 900)**	**1 249**	(1 568)	597
Increase/(decrease) in profit before tax	**685**	**(1 332)**	735	(1 192)
(Decrease)/increase in income tax	**(205)**	**400**	(221)	358
Increase/(decrease) in equity	**480**	**(932)**	514	(834)

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.6 Liquidity risk

Confidence in an organization, and hence liquidity, can be affected by a range of institution specific and market-wide events including, amongst others, market rumours, credit events, payment system disruptions, systemic shocks, and even natural disasters.

The definition of liquidity risk is the risk that the Bank 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 client lending, trading activities and investments. These outflows could be principally through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan draw-downs. This risk is inherent in all banking operations and can be affected by a range of Bank-specific and market-wide events which can result in: – an inability to support normal business activity; and – a failure to meet liquidity regulatory requirements.

During periods of market dislocation, the Group's ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding as well as an increase in the cost of raising wholesale funds. Asset sales, balance sheet reductions and the increasing costs of raising funding will affect the earnings of the Bank. In illiquid markets, the Bank may decide to hold assets rather than securitising, syndicating or disposing of them. This could affect the Bank's ability to originate new loans or support other customer transactions as both capital and liquidity are consumed by existing or legacy assets.

The efficient management of liquidity is essential to the Bank in retaining the confidence of the financial markets and ensuring that the business is sustainable. Liquidity risk is managed through the Liquidity Risk Framework, which is designed to meet the following objectives:

- To maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the liquidity risk framework as expressed by the Board;
- To maintain market confidence in the Bank's name;
- To set limits to control liquidity risk within and across lines of business;
- To accurately price liquidity costs, benefits and risks and incorporate those into product pricing and performance measurement;
- To set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources;
- To project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items; and
- To maintain a contingency funding plan ("CFP") that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Liquidity stress testing;
- Liquidity planning (funding plans, contingency funding plans, recovery and resolution planning);
- Reporting and behavioural balance sheet analysis;
- Funds transfer pricing; and – Defined management actions to mitigate risk.

Stress and scenario testing:

Under the Liquidity Risk Framework, the Group has established the Liquidity Risk Appetite ("LRA"), which is the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations.

It is measured with reference to anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to size the liquidity pool. Stress testing is undertaken to assess and plan for the impact of various scenarios which may put the Group's liquidity at risk. Stress tests consider both institution-specific and market-wide scenarios separately and on a combined basis. Treasury develops and monitors stress tests on the Group's projected cash flows.

These stress scenarios include the Group's specific scenarios such as unexpected operational problems and external sources such as country crises, payment system disruption and macroeconomic shocks. Stress testing also allows the Group to identify appropriate responses to crises, setting liquidity limits, sources of stress funding and liquidity buffers as well as formulating a funding strategy designed to minimise liquidity risk. The results of the stress tests are therefore used to develop the CFP (Contingency Funding Plan) and are taken into account when setting limits for the management of liquidity risk and the business planning process.

The Group maintains a range of early warning indicators ("EWIs"). These assist in informing management on deciding whether the CFP should be invoked. Each operation must adopt and conform to the Company CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Group's level plan. The CFPs set out the specific requirements to be undertaken locally in a crisis situation. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets.

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.6 Liquidity risk (continued)

The Group CFP is regularly tested and updated so as to ensure that it is operationally robust. Diversification Sources of liquidity are regularly reviewed by a separate team within Treasury to maintain a wide diversification by provider, product and term. In addition, to avoid reliance on a particular group of customers or market sectors the distribution of sources and the maturity profile of deposits are also carefully managed. Important factors in assuring liquidity are strength of relationships and the maintenance of depositors' confidence. Such confidence is based on the Group's reputation and relationship with those clients, the strength of earnings and the Group's financial position.

Assets held for managing liquidity risk

The Group maintains a portfolio of highly marketable assets, which includes a diverse portfolio of cash and high quality liquid securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets that may be held for managing liquidity risk may comprise cash deposits with the Central bank/monetary authority and/or holdings of high quality eligible liquid assets, such as, for example, government bonds or other securities that would be readily acceptable in repurchase agreements.

Funds transfer pricing:

Liquidity costs, benefits and risk should be clearly and transparently attributed to business lines and understood by business line management. The Group Treasury and ALCO are responsible for implementing a "funds transfer pricing" mechanism as a means of communicating and disseminating the cost of liquidity risk.

Group deploys liquidity risk funds transfer pricing processes as a means of controlling the behavioural profile of the Group's balance sheet. Funds transfer pricing incentivises business units to manage assets and liabilities in accordance with the Group liquidity risk appetite.

Structural liquidity:

An important source of structural liquidity is provided by core deposits; mainly current accounts and savings accounts. Although current accounts are repayable on demand and savings accounts on short notice, the Group's broad base of customers numerically and by depositor type helps to protect against unexpected fluctuations. Such accounts form a stable funding base for the Group's operations and liquidity needs.

Sources of liquidity risk

Group has material liquidity risk exposure arising from the following sources:

- Wholesale secured and unsecured funding risk

  Wholesale funding providers are a key source of liquidity funding for the Group operations. A disruption to wholesale markets could impact the Group's ability to effectively fund certain business activities.

- Retail funding risk

  Most retail loans and advances are funded by customer deposits. A material loss of retail deposit funding could arise through a lack of confidence in the Group name or credit worthiness; and could impact the Group's ability to effectively fund retail banking operations.

- Contingent liquidity risks

  The Group could experience material cash outflows arising from contingent events such as rating downgrade triggers, off balance sheet transactions, drawdowns of unused credit facilities and the early termination of derivative transactions.

- Concentration risk

  Concentrations in the sources of funding utilised by the Group can give rise to liquidity risk if access to any of these sources is disrupted. Other funding source represent risk to the Group when these sources are subject to material counterparties, markets, currencies, tenors or instrument types.   The table below represents the undiscounted cash flows payable by the Bank under non – derivative financial liabilities by remaining contractual liabilities at the balance sheet date.

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.6 Liquidity risk (continued)

Group and Bank	Undiscounted maturity On demand Shs'million	Within 1 year Shs'million	1 – 5 years Shs'million	More than 5 years Shs'million	Total Shs'million	Discounted maturity Total Shs'million
2022						
Non-derivative financial assets						
Cash and balances with Central Bank of Kenya	24 211	-	-	-	24 211	24 211
Financial assets at fair value through profit or loss	-	14 249	42 996	-	57 245	42 905
Financial assets at fair value through other comprehensive income	-	26 437	95 519	-	121 956	90 585
Deposits and balances due from banking institutions	4 957	-	-	-	4 957	4 957
Due from group companies	208	9 906	-	-	10 114	8 881
Loans and advances to customers	-	126 377	176 510	237 081	539 968	283 579
Total non-derivative financial assets	29 376	176 969	315 025	237 081	758 451	455 118
Non-derivative financial liabilities						
Amounts owing to related parties	461	66 539	-	-	67 000	60 798
Deposits from customers	193 578	118 789	3 522	-	315 889	303 751
Deposits and balances due to banking institutions	9 018	-	-	-	9 018	9 018
Borrowings	-	-	28 354	-	28 354	19 773
Lease liability	-	452	848	-	1 300	1 074
Other liabilities and accrued expenses	1 660	17 767	-	-	19 427	17 853
Total non-derivative financial liabilities	204 717	203 547	32 724	-	440 988	412 267
Liquidity gap	(175 341)	(26 578)	282 301	237 081	317 463	42 851
Off - statement of financial position						
Guarantee and performance bonds	22 242	-	-	-	22 242	22 242
Loan commitments	11 193	39 266	-	-	50 459	50 459
Letters of credit	35 403	-	-	-	35 403	35 403
Total off - statement of financial position	68 838	39 266	-	-	108 104	108 104

Group and Bank	Undiscounted maturity On demand Shs'million	Within 1 year Shs'million	1 – 5 years Shs'million	More than 5 years Shs'million	Total Shs'million	Discounted maturity Total Shs'million
2021						
Non-derivative financial assets						
Cash and balances with Central Bank of Kenya	21 009	-	-	-	21 009	21 009
Financial assets at fair value through profit or loss	-	24 026	32 384	-	56 410	44 196
Financial assets at fair value through other comprehensive income	-	22 828	97 391	-	120 219	88 380
Deposits and balances due from banking institutions	3 007	-	-	-	3 007	3 007
Due from group companies	167	21 330	-	-	21 497	19 385
Loans and advances to customers	23 834	60 178	171 483	187 703	443 198	234 234
Total non-derivative financial assets	48 017	128 362	301 258	187 703	665 340	410 211
Non-derivative financial liabilities						
Amounts owing to related parties	266	74 228	-	-	74 494	67 143
Deposits from customers	201 518	73 202	1 791	-	276 511	268 717
Deposits and balances due to banking institutions	4 809	-	-	-	4 809	4 809
Borrowings	-	-	12 215	-	12 215	8 505
Lease liability	-	452	652	-	1 104	941
Other liabilities and accrued expenses	1 544	18 131	-	-	19 675	17 933
Total non-derivative financial liabilities	208 137	166 013	14 658	-	388 808	368 048
Liquidity gap	(160 120)	(37 651)	286 600	187 703	276 532	42 163

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.6 Liquidity risk (continued)

Group and Bank	On demand Shs'million	Within 1 year Shs'million	Undiscounted maturity 1 – 5 years Shs'million	More than 5 years Shs'million	Total Shs'million	Discounted maturity Total Shs'million
2021						
Off - statement of financial position						
Guarantee and performance bonds	19 702	-	-	-	19 702	19 702
Loan commitments	13 164	42 371	-	-	55 535	55 535
Letters of credit	21 749	-	-	-	21 749	21 749
Total off - statement of financial position	54 615	42 371	-	-	96 986	96 986

The Group's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- unrecognised loan commitments are not all expected to be drawn down immediately

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents, and other financial securities, which can be readily sold to meet liquidity requirements.

Group	On demand Shs'million	Within 1 year Shs'million	1 – 5 years Shs'million	Total Shs'million
2022				
Cash and balances with Central Bank of Kenya	**24 211**	**–**	**–**	**24 211**
Financial assets at fair value through other comprehensive income	**–**	**23 973**	**66 612**	**90 585**
Assets held for managing liquidity	**24 211**	**23 973**	**66 612**	**114 796**
2021				
Cash and balances with Central Bank of Kenya	21 009	-	-	21 009
Financial assets at fair value through other comprehensive income	-	20 567	67 813	88 380
Assets held for managing liquidity	21 009	20 567	67 813	109 389

Derivative liabilities

The table below analyses the Bank's derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cash flows on all derivatives. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2022	Notional amount	On demand	Within 1 year	More than 5 years
Derivative liabilities held for trading	**(141 534)**	**–**	**–**	**–**
Outflow	**–**	**(141 534)**	**–**	**–**
	(141 534)	**(141 534)**	**–**	**–**
31 December 2021				
Derivative liabilities held for trading	(90 454)	-	-	-
Outflow	-	(90 454)	-	-
	(90 454)	(90 454)	-	-

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.7 Capital risk management

The risk weighted assets are measured using the Risk weights prescribed under the Central Bank prudential guidelines.

Capital risk is the risk that the Bank is unable to maintain adequate levels of capital which could lead to an inability to:

(i) support business activity;

(ii) a failure to meet regulatory requirements;

(iii) changes to credit ratings, which could also result in increased costs or reduced capacity to raise funding.

Our objectives are achieved through well embedded capital management practices:

Primary objectives and core practices:

- Provide a viable and sustainable business offering by maintaining adequate capital to cover the Bank's current and forecast business needs and associated risks
- Monitor internal targets for capital demand and ratios
- Meet minimum regulatory requirements
- Ensure the Group maintains adequate capital to withstand the impact of the risks that may arise under the stressed conditions
- Perform internal and regulatory stress tests
- Maintain capital buffers over regulatory minimum
- Develop contingency plans for severe (stress management actions)
- Support the Bank's growth and strategic options
- Maintain a capital plan on a short-term and medium term basis aligned with strategic objectives

We adopt a forward-looking, risk based approach to Capital Risk Management. Capital demand and supply is actively managed taking into account the regulatory, economic and commercial environment in which Absa operates.

Capital planning

Capital forecasts are managed through both Short Term (Year 1 monthly) and Medium Term (3 year) financial planning cycles. The capital plan is developed with the objective of maintaining capital that is adequate in quantity and quality to support our risk profile and business needs. Local management ensures compliance with an entity's minimum regulatory capital requirements by reporting to Asset and Liability Committee (ALCO).

Regulatory Capital

The Bank maintains a ratio of total regulatory capital to its risk-weighted above a minimum level prescribed by the Central Bank of Kenya. The Bank's regulatory capital is managed by its Treasury and comprises two tiers:

(i) Tier 1 capital:

- Share capital,
- Retained earnings, excluding unrealised gains arising on the fair valuation of fair value through other comprehensive income investments; and

(ii) Tier 2 capital:

- Statutory reserve;
- Medium term note; and
- Subordinated loan capital

Notes to the annual financial statements

for the year ended 31 December 2022

40. Risk management (continued)

40.7 Capital risk management (continued)

Regulatory Capital (continued)

Bank	Regulatory minimum	As at 31 Dec 2022 Shs'million	As at 31 Dec 2021 Shs'million
Tier 1	10.5%	14.6%	14.6%
Total capital	14.5%	18.6%	17.1%
Tier 1 Capital	1 000	55 607	47 871
Ordinary share capital		2 716	2 716
Retained earnings		53 164	45 155
Less: Deferred tax asset		(273)	-
Tier 2 Capital		15 506	8 487
Subordinated debt		15 506	8 487
Total regulatory capital	1 000	71 113	56 358
Total risk weighted assets		382 150	328 712
Total shareholders' equity/capital resources		60 811	54 355
Core capital/total deposit liabilities	8.0%	18.54%	17.9%
Liquidity ratio	20.0%	33.6%	38.3%

41. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. Trading assets and liabilities including derivatives have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products. With regard to loans and advances to customers, the Bank uses the same basis of expected repayment behavior that was used for estimating the EIR. Issued debt reflects the contractual coupon amortization.

Group As at 31 December 2022	Within 12 months Shs'million	After 12 months Shs'million	Total Shs'million
Assets			
Cash and balances with Central Bank of Kenya	24 211	-	24 211
Loans and advances to banks	4 957	-	4 957
Financial assets at fair value through profit or loss	12 921	29 984	42 905
Derivative financial instruments	2 025	842	2 867
Financial assets at FVOCI	23 973	66 612	90 585
Due from group companies	8 881	-	8 881
Loans and advances to customers	66 827	216 752	283 579
Other assets and prepaid expenses	9 352	-	9 352
Current income tax	748	-	748
Non-current assets held for sale	-	47	47
Property and equipment	-	2 629	2 629
Other intangible assets	-	516	516
Leasehold land	-	32	32
Deferred income tax	-	5 925	5 925
Total assets	153 895	323 339	477 234
Liabilities			
Deposits from banks	9 018	-	9 018
Derivative financial instruments	659	574	1 233
Due to group companies	60 798	-	60 798
Deposits from customers	205 166	98 585	303 751
Borrowings	-	19 773	19 773
Other liabilities and accrued expenses	18 927	-	18 927
Retirement benefit liability	121	-	121
Total liabilities	294 689	118 932	413 621
Net	(140 794)	204 407	63 613

Notes to the annual financial statements

for the year ended 31 December 2022

41 Maturity analysis of assets and liabilities (continued)

As at 31 December 2021	Within 12 months Shs'million	After 12 months Shs'million	Total Shs'million
Assets			
Cash and balances with Central Bank of Kenya	21 009	-	21 009
Loans and advances to banks	3 007	-	3 007
Financial assets at fair value through profit or loss	21 647	22 549	44 196
Derivative financial instruments	1 120	-	1 120
Financial assets at FVOCI	20 567	67 813	88 380
Due from group companies	19 058	-	19 058
Loans and advances to customers	78 052	156 182	234 234
Other assets and prepaid expenses	10 050	-	10 050
Non-current assets held for sale	47	-	47
Property and equipment	-	2 374	2 374
Other intangible assets	-	481	481
Leasehold land	-	33	33
Deferred income tax	-	4 738	4 738
Total assets	174 557	254 170	428 727
Liabilities			
Deposits from banks	4 809	-	4 809
Derivative financial instruments	1 344	-	1 344
Due to group companies	67 143	-	67 143
Deposits from customers	266 326	2 391	268 717
Borrowings	-	8 505	8 505
Other liabilities and accrued expenses	18 872	-	18 872
Current income tax	2 521	-	2 521
Retirement benefit liability	-	363	363
Total liabilities	361 015	11 259	372 274
Net	(186 458)	242 911	56 453

Notes to the annual financial statements

for the year ended 31 December 2022

41 Maturity analysis of assets and liabilities (continued)

Bank **As at 31 December 2022**	**Within 12 months** **Shs'million**	**After 12 months** **Shs'million**	**Total** **Shs'million**
Assets			
Cash and balances with Central Bank of Kenya	**24 211**	**-**	**24 211**
Loans and advances to banks	**4 957**	**-**	**4 957**
Financial assets at fair value through profit or loss	**12 921**	**29 984**	**42 905**
Derivative financial instruments	**2 025**	**842**	**2 867**
Financial assets at FVOCI	**23 973**	**66 220**	**90 193**
Due from group companies	**9 191**	**-**	**9 191**
Loans and advances to customers	**66 827**	**216 752**	**283 579**
Other assets and prepaid expenses	**9 385**	**-**	**9 385**
Investment in subsidiaries	**-**	**463**	**463**
Current income tax	**537**	**-**	**537**
Non-current assets held for sale	**-**	**47**	**47**
Property and equipment	**-**	**2 627**	**2 627**
Other intangible assets	**-**	**462**	**462**
Leasehold land	**-**	**32**	**32**
Deferred income tax		**5 835**	**5 835**
Total assets	**154 027**	**323 264**	**477 291**
Liabilities			
Deposits from banks	**9 018**	**-**	**9 018**
Derivative financial instruments	**659**	**574**	**1 233**
Due to group companies	**60 798**	**-**	**60 798**
Deposits from customers	**208 078**	**98 585**	**306 663**
Borrowings	**-**	**19 773**	**19 773**
Other liabilities and accrued expenses	**18 874**	**-**	**18 874**
Retirement benefit liability	**121**	**-**	**121**
Total liabilities	**297 548**	**118 932**	**416 480**
Net	**(143 521)**	**204 332**	**60 811**

Notes to the annual financial statements

for the year ended 31 December 2022

41 Maturity analysis of assets and liabilities (continued)

Bank

As at 31 December 2021	Within 12 months Shs'million	After 12 months Shs'million	Total Shs'million
Assets			
Cash and balances with Central Bank of Kenya	21 009	-	21 009
Loans and advances to banks	3 007	-	3 007
Financial assets at fair value through profit or loss	21 647	22 549	44 196
Derivative financial instruments	1 120	-	1 120
Financial assets at FVOCI	20 567	67 405	87 972
Due from group companies	19 385	-	19 385
Loans and advances to customers	78 052	156 182	234 234
Other assets and prepaid expenses	9 838	-	9 838
Investment in subsidiaries	-	463	463
Non-current assets held for sale	47	-	47
Property and equipment	-	2 369	2 369
Other intangible assets	-	418	418
Leasehold land	-	33	33
Deferred income tax	-	4 677	4 677
Total assets	174 672	254 096	428 768
Liabilities			
Deposits from banks	4 809	-	4 809
Derivative financial instruments	1 344	-	1 344
Due to group companies	67 143	-	67 143
Deposits from customers	268 346	2 391	270 737
Borrowings	-	8 505	8 505
Other liabilities and accrued expenses	18 762	-	18 762
Current income tax	2 750	-	2 750
Retirement benefit liability	-	363	363
Total liabilities	363 154	11 259	374 413
Net	(188 482)	242 837	54 355

42. Fair value hierarchy of assets and liabilities held at fair value

42.1 Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Notes to the annual financial statements

for the year ended 31 December 2022

42. Fair value hierarchy of assets and liabilities held at fair value (continued)

42.1 Fair value hierarchy (continued)

Group

2022 **Recurring fair value measurements**	**Level 1 Shs'million**	**Level 2 Shs'million**	**Level 3 Shs'million**	**Total Shs'million**
Financial assets				
Fair value through profit or loss:				
Government trading securities	**-**	**42 905**	**-**	**42 905**
Derivatives financial assets	**-**	**2 867**	**-**	**2 867**
Fair value through OCI:				
Government securities	**-**	**90 585**	**-**	**90 585**
Financial liabilities				
Fair value through profit or loss:				
Derivatives financial liabilities	**-**	**(1 233)**	**-**	**(1 233)**
		135 124		**135 124**

Group

2021				
Financial assets				
Fair value through profit or loss				
Government trading securities	-	44 196	-	44 196
Derivatives financial assets	-	1 120	-	1 120
Fair value through OCI:				
Government securities	-	88 830	-	88 830
Financial liabilities				
Fair value through profit and loss				
Derivatives financial liabilities	-	(1 344)	-	(1 344)
	-	132 802	-	132 802

Notes to the annual financial statements

for the year ended 31 December 2022

42. Fair value hierarchy of assets and liabilities held at fair value (continued)

42.1 Fair value hierarchy (continued)

Bank

2022 **Recurring fair value measurements**	**Level 1 Shs'million**	**Level 2 Shs'million**	**Level 3 Shs'million**	**Total Shs'million**
Financial assets				
Fair value through profit or loss:				
Government trading securities	**-**	**42 905**	**-**	**42 905**
Derivatives financial assets	**-**	**2 867**	**-**	**2 867**
Fair value through OCI:				
Government securities	**-**	**90 193**	**-**	**90 193**
Financial liabilities				
Fair value through profit or loss:				
Derivatives financial liabilities	**-**	**(1 233)**	**-**	**(1 233)**
	-	**134 732**	**-**	**134 732**

Bank

2021				
Financial assets				
Fair value through profit or loss				
Government trading securities	-	44 196	-	44 196
Derivatives financial assets	-	1 120	-	1 120
Fair value through OCI:				
Government securities	-	87 972	-	87 972
Financial liabilities				
Fair value through profit and loss				
Derivatives financial liabilities	-	(1 344)	-	(1 344)
	-	131 944	-	131 944

During the year, there were no level 3 financial instruments, in addition there were no transfers of financial instruments into and out of level 1, 2 and 3 hierarchy.

Notes to the annual financial statements

for the year ended 31 December 2022

42. Fair value hierarchy of assets and liabilities held at fair value (continued)

42.2 Assets and liabilities carried at amortised cost

The following table summarises the carrying amounts and fair value of those assets and liabilities not held at fair value.

The carrying amount of assets and liabilities held at amortised costs is considered to approximate the fair value of the assets and liabilities.

2022

Group	Carrying amount Shs'million	Fair value Shs'million	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million
Assets at amortised cost					
Cash and cash equivalents	**24 211**	**24 211**	**-**	**24 211**	**-**
Loans and advances to banks	**4 957**	**4 957**	**-**	**-**	**4 957**
Due from group companies	**8 883**	**8 883**	**-**		**8 883**
Loans and advances to customers	**283 579**	**331 210**	**-**	**-**	**283 579**
Total	**321 630**	**369 261**	**-**	**24 211**	**297 419**
Liabilities at amortised cost					
Deposits from banks	**9 018**	**9 018**			**9 018**
Due to group companies	**60 798**	**60 798**	**-**	-	**60 798**
Deposits from customers	**303 751**	**303 751**	**-**	-	**303 751**
Borrowings	**19 773**	**13 517**	**-**	-	**19 773**
Total	**393 340**	**387 084**	**-**	-	**393 340**

2021

Assets at amortised cost					
Cash and cash equivalents	21 009	21 009	-	21 009	-
Loans and advances to banks	3 007	3 007	-	-	3 007
Due from group companies	19 058	19 058	-	-	19 058
Loans and advances to customers	234 234	234 234	-	-	234 234
Total	277 308	277 308	-	21 009	256 299
Liabilities at amortised cost					
Deposits from banks	4 809	4 809	-		4 809
Due to group companies	67 143	67 143	-		67 143
Customer deposits	268 717	268 717	-		268 717
Borrowings	8 505	8 505	-		8 505
Total	349 174	349 174	-		349 174

The fair value for both loans and advances to customers and borrowing has been estimated using valuation models i.e discounted cash flow techniques. Inputs into the valuation techniques includes expected lifetime credit losses, interests rates, prepayments rates and primary origination or secondary market spreads.

The fair value for both deposits from customers and deposits from banks is estimated using the carrying amount since the amounts are payable on demand as at the reporting date.

The fair value for cash and cash equivalents, loans and advances to banks and due from group companies is estimated using the carrying amount since the amounts are receivable on demand as at the reporting date.

Notes to the annual financial statements

for the year ended 31 December 2022

42. Fair value hierarchy of assets and liabilities held at fair value (continued)

42.2 Assets and liabilities carried at amortised cost

2022

Bank	Carrying amount Shs'million	Fair value Shs'million	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million
Assets at amortised cost					
Cash and cash equivalents	**24 211**	**24 211**	**-**	**24 211**	**-**
Loans and advances to banks	**4 957**	**4 957**	**-**	**-**	**4 957**
Due from group companies	**9 191**	**9 191**	**-**		**9 191**
Loans and advances to customers	**283 579**	**331 210**	**-**	**-**	**283 579**
Total	**321 938**	**369 569**	**-**	**24 211**	**297 727**
Liabilities at amortised cost					
Deposits from banks	**9 018**	**9 018**	**-**	-	**9 018**
Due to group companies	**60 798**	**60 798**	**-**	-	**60 798**
Deposits from customers	**306 663**	**306 663**	**-**	-	**306 663**
Borrowings	**19 773**	**14 370**	**-**	-	**19 773**
Total	**396 252**	**390 849**	**-**	-	**396 252**
2021					
Assets at amortised cost					
Cash and cash equivalents	21 009	21 009	-	21 009	-
Loans and advances to banks	3 007	3 007	-	-	3 007
Due from group companies	19 385	19 385	-	-	19 385
Loans and advances to customers	234 234	234 234	-	-	234 234
Total	277 635	277 635	-	21 009	256 626
Liabilities at amortised cost					
Deposits from banks	4 809	4 809	-		4 809
Due to group companies	67 143	67 143	-		67 143
Customer deposits	268 717	268 717	-		268 717
Borrowings	8 505	8 505	-		8 505
Total	349 174	349 174	-		349 174

The fair value for both loans and advances to customers and borrowing has been estimated using valuation models i.e discounted cash flow techniques. Inputs into the valuation techniques includes expected lifetime credit losses, interests rates, prepayments rates and primary origination or secondary market spreads.

The fair value for both deposits from customers and deposits from banks is estimated using the carrying amount since the amounts are payable on demand as at the reporting date.

The fair value for cash and cash equivalents, loans and advances to banks and due from group companies is estimated using the carrying amount since the amounts are receivable on demand as at the reporting date.

Notes to the annual financial statements

for the year ended 31 December 2022

42. Fair value hierarchy of assets and liabilities held at fair value (continued)

42.3 Valuation techniques for the level 2 fair value measurement of assets and liabilities held at fair value

The table below sets out information about the valuation techniques applied at the end of the reporting period in measuring assets and liabilities whose fair value is categorised as Level 2 in the fair value hierarchy. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations is set out in the table below:

Category of asset/liability	Valuation technique applied	Significant observable inputs
Government trading securities Government securities	Discounted cash flow valuation technique	Quoted yields and 13 bps bid offer adjustment that management has estimated as the reasonable basis for applying the adjustment
Foreign exchange derivatives	Discounted cash flow valuation technique	Spot price, interest rate and/ or volatility

42.4 Valuation techniques for the levels 1, 2 or 3 fair value measurement of assets and liabilities held at amortised cost

For assets or liabilities held at amortised cost and disclosed in levels 2 or 3 of the fair value hierarchy, the discounted cash flow valuation technique is used. Interest rates and money market curves are considered unobservable inputs for items which mature after five years. However, if the items mature in less than five years, these inputs are considered observable.

The following table presents information about the valuation techniques and significant unobservable inputs used in measuring assets and liabilities categorised as Level 3 in the fair value hierarchy:

Category of asset/liability	Valuation technique applied	Significant unobservable inputs	Range of unobservable inputs applied
Loans and advances	Discounted cash flow	Credit spreads	2% - 5%
Borrowings	Discounted cash flow	Credit spreads	1% - 2%

43. Segmental reporting

43.1. Statement of financial position

In line with our vision to finding solutions to uniquely local challenges and for management purposes, the Group is organised into business units based on its products and services and has two reportable segments, as follows:

- Consumer banking – composed mainly of retail business which incorporates Individual customers' deposits and consumer loans, overdrafts, credit card facilities and funds transfer facilities; and
- Corporate banking –the business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients.

Given the majority of the Group revenues are derived from interest and dealing activities and the Country Management Committee (CMC) relies primarily on net interest revenue and dealing income to assess the performance of the segments, the total interest income and expense for all reportable segments is presented on a net basis. There were no changes in the reportable segments during the year. The revenue from external parties reported to the CMC is measured in a manner consistent with that in the consolidated statement of profit or loss. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Revenue-sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses. The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the CMC. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position, but exclude items such as taxation, property and equipment.

Notes to the annual financial statements

for the year ended 31 December 2022

43. Segmental reporting (continued)

	Corporate Banking Shs'million	Consumer Banking Shs'million	Total Shs'million
43.2. Statement of comprehensive income			
Group and Bank			
2022			
Net interest income	**8 300**	**24 015**	**32 315**
Non-interest income	**6 483**	**6 535**	**13 018**
Total income	**14 783**	**30 550**	**45 333**
Impairment losses on financial instruments	**(529)**	**(5 295)**	**(5 824)**
Net operating income	**14 254**	**25 255**	**39 509**
Operating expenses			
Depreciation and amortisation	**(34)**	**(849)**	**(883)**
Other operating expenses	**(3 467)**	**(14 310)**	**(17 777)**
Total operating expenses	**(3 501)**	**(15 159)**	**(18 660)**
Profit before tax	**10 753**	**10 096**	**20 849**
Taxation	**(3 230)**	**(3 032)**	**(6 262)**
Profit for the year	**7 523**	**7 064**	**14 587**
2021			
Net interest income	4 835	20 422	25 257
Non-interest income	5 190	5 853	11 043
Total income	10 025	26 275	36 300
Impairment losses on financial instruments	121	(4 208)	(4 087)
Net operating income	10 146	22 067	32 213
Operating expenses			
Depreciation and amortisation	(34)	(867)	(901)
Other operating expenses	(3 461)	(12 302)	(15 763)
Total operating expenses	(3 495)	(13 169)	(16 664)
Profit before tax	6 651	8 898	15 549
Taxation	(2 193)	(2 486)	(4 679)
Profit for the year	4 458	6 412	10 870
43.3 Statement of financial position			
2022			
Loans and advances to customers	**116 834**	**166 745**	**283 579**
Loans and advances to banks	**4 957**	**–**	**4 957**
Other assets	**78 242**	**110 456**	**188 698**
	200 033	**277 201**	**477 234**
Liabilities			
Deposits from customers	**64 438**	**239 313**	**303 751**
Trade and other payables	**86 156**	**23 714**	**109 870**
	150 594	**263 027**	**413 621**

Notes to the annual financial statements

for the year ended 31 December 2022

43. Segmental reporting (continued)

43.3 Statement of financial position (continued)

Goup and Bank 2021	Corporate Banking Shs'million	Consumer Banking Shs'million	Total Shs'million
Assets			
Loans and advances to customers	95 622	138 612	234 234
Loans and advances to banks	3 007	-	3 007
Other assets	90 246	101 235	191 481
	188 875	239 847	428 722
Liabilities			
Deposits from customers	51 887	216 830	268 717
Othe liabilities	86 632	16 925	103 557
	138 519	233 755	372 274

44. Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position (SOFP) where the Bank has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Bank has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.
The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2022 and 31 December 2021. The column 'net amount 'shows the impact on the Bank's statement of financial position if all set-off rights were exercised. There were no gross amounts set off in the statement of financial position at 31 December 2022 (2021: Nil).

Group and Bank	Effects of offsetting in the SOFP	Related amounts not offset		
2022	Amounts presented in the SOFP Shs'million	Amounts subject to master netting agreement Shs'million	Financial instrument collateral Shs'million	Net amount Shs'million
Financial assets				
Loans and advances to customers	**283 579**	**-**	**(1 993)**	**281 586**
	283 579	**-**	**(1 993)**	**281 586**
Liabilities				
Deposits from customers	**303 751**	**-**	**(1 993)**	**301 758**
	303 751	**-**	**(1 993)**	**301 758**
2021				
Financial assets				
Loans and advances to customers	234 234	-	(1 065)	233 169
	234 234	-	(1 065)	233 169
Liabilities				
Deposits from customers	268 717	-	(1 065)	267 652
	268 717	-	(1 065)	267 652

Notes to the annual financial statements

for the year ended 31 December 2022

44. Offsetting financial assets and financial liabilities (continued)

Master netting arrangements

Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Bank does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position, but have been presented separately in the table above.

45. Related parties

Absa Bank Kenya PLC is a subsidiary of Absa Group Limited, which is listed on the Johannesburg Stock Exchange. The ultimate parent of the Group is Absa Group Limited. There are other companies which are related to Absa Bank Kenya PLC through common shareholdings or common directorships.

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

A number of banking transactions are entered into with related parties' i.e. key management staff, Directors, their associates and companies associated with Directors in the normal course of business, under terms that are no more favourable than those arranged with other employees. These include loans, deposits and foreign currency transactions. The outstanding balances at the reporting date with related parties and related-party transactions conducted during the reporting period are as follows:

a) Key management personnel compensation and Non-executive Directors

	2022 Shs' million	2021 Shs' million
Non-deferred cash payments	**232**	152
Post-employment benefit contributions	**28**	32
Salaries and other short-term benefits	**351**	405
Share-based payments	**115**	134
	726	723

	2022 Shs' million	2021 Shs' million
The compensation paid to directors was in respect of:		
Services rendered as directors of the Bank	**47**	39
	47	39

b) Statement of comprehensive income

	Relationship	Interest received Shs'million	Interest paid Shs'million	Recharges Shs'million
2022				
Absa Group Limited	Parent	**132**	**1 087**	**1 314**
Absa Bank Mauritius	Sister	**455**	**607**	**–**
		587	**1 694**	**1 314**
2021				
Absa Group Limited	Parent	2	651	1 654
Absa Bank Mauritius	Sister	424	-	-
		426	651	1 654

In the normal course of business, placings of foreign currencies are made with the parent company and other companies at interest rates in line with the market.

Notes to the annual financial statements

for the year ended 31 December 2022

45. Related parties (continued)

The weighted average effective interest rate at 31 December 2022 on amounts due from group companies was 3.7% (2021:3.6%) and on amounts due to group companies was 2.1% (2021: 1.2%).

Group companies provide support services from time to time for which they recharge the costs incurred at the country of origin.

The value of the services recharged has been debited to the profit or loss and is included in total expenditure of the Group in Note 12.

Absa Bank Kenya PLC Staff Pension Fund and Absa Bank Kenya PLC (DC) Scheme 2009 (the "Funds") are sponsored by Absa Bank Kenya PLC.

Incidental business

c) Due from Group companies

	Relationship	Group		Bank	
		2022 Shs' million	2021 Shs'million	**2022 Shs' million**	2021 Shs'million
Absa Group Limited	Parent	**8 650**	10 023	**8 650**	10 023
Absa Bank Mauritius	Sister	**-**	9 004	**-**	9 004
Absa Bank Ghana	Sister	**-**	-	**-**	-
Absa Bank Uganda	Sister	**19**	16	**19**	16
Absa Bank Tanzania	Sister	**57**	1	**57**	1
Absa Life Assurance Kenya	Sister	**135**	9	**4**	9
First Assurance Kenya	Sister	**20**	5	**8**	5
Absa Bancassurance Intermediary Limited	Subsidiary	**-**	-	**207**	141
Absa Securities Limited	Subsidiary	**-**	-	**149**	118
Absa Asset Management Limited	Subsidiary	**-**	-	**97**	68
		8 881	19 058	**9 191**	19 385

d) Due to Group companies

Absa Group Limited	Parent	**(51 248)**	(58 078)	**(51 248)**	(58 078)
Absa Bank Mauritius	Sister	**(9 384)**	(9 005)	**(9 384)**	(9 005)
Absa Bank Zambia	Sister	**(1)**	(2)	**(1)**	(2)
Absa Bank Uganda	Sister	**(48)**	(29)	**(48)**	(29)
Absa Bank Tanzania	Sister	**(68)**	(29)	**(68)**	(29)
National Bank of Commerce	Sister	**(43)**	-	**(43)**	-
Absa Bank Botswana	Sister	**(6)**	-	**(6)**	-
		(60 798)	(67 143)	**(60 798)**	(67 143)

At 31 December 2022 advances to directors or companies controlled by directors or their families amounted to Shs 33 million (2021: Shs 35 million). Interest income earned amounted to Shs 5 million (2021: 5 million).

All loans to Directors, (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons and (c) did not involve more than a normal risk of collectability or present other unfavourable features. No allowances for impairment were recognised in respect of loans to Directors. (2021: Nil).

During the year the directors maintained various deposit accounts with the Bank which included current, savings and fixed deposit accounts. At 31 December 2022, balances relating to directors deposits amounted to Shs 23 million (2021: Shs 85 million).

e) Guarantee

In the year ending 31 December 2022, there was no guarantee given or received to/from any related party (2021: NIL).

Notes to the annual financial statements

for the year ended 31 December 2022

46. Commitments and contingencies

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer. Undelivered spot transactions represent commitment either to buy or sell foreign currency and are recognised at cost on the trade date.

		Group and Bank	
		2022 **Shs'million**	2021 Shs'million
46.1	**Commitments**		
	Undrawn overdraft facilities	**11 193**	13 164
46.2	**Contingent liabilities**		
	Letters of credit	**35 403**	21 749
	Guarantee and performance bonds	**22 242**	19 702
	Unutilised lines of credit	**39 266**	42 371
		96 911	83 822

Pledged assets amounted to Shs 1 250 million (2021: Shs 1,250 million). The class of asset pledged in both years was a bond issue. The purpose of the pledge was to create an ILF (Intra-Day Liquidity Facility) with the Central Bank of Kenya. The ILF provides collateralised lending of funds to commercial bank to facilitate their daily intra-day payment obligations in the Kenya Electronic Payment and Settlement System (KEPSS). Under this facility, commercial banks identify and set aside pre-determined amounts of Government securities from their portfolio holdings for securing intra-day borrowings based on their anticipated average daily liquidity requirements.

In the event of failure to settle by the Bank, the ILF shall convert to an overnight facility. The underlying pledged securities shall therefore become encumbered.

In common with other banks, the group conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the consolidated balance sheet.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The group expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the bank to make payments to third parties on production of documents, which are subsequently reimbursed by customers.

Guarantees and assets pledged as security are generally written by a bank to support the performance of a customer to third parties. The group will only be required to meet these obligations in the event of the customers' default. At year end, the bank has obtained undertakings from Absa Group Limited in respect of bonds, guarantees and indemnities facility and letters of credit of Shs 4 860 million (2021: Shs 3 504 million).

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer. Undelivered spot transactions represent commitment either to buy or sell foreign currency and are recognised at cost on the trade date.

46.3 Contingent tax liabilities

The Bank has transactions and calculations for which the ultimate tax treatment involves a degree of estimation and judgement. The tax treatment adopted by the Kenya Revenue Authority may differ from the treatment applied by the Bank thus requiring determination by the courts. The Group recognises provisions for anticipated tax audit issues based on estimates of whether additional taxes will be due after considering external advice where appropriate. The carrying amount of any resulting provisions will be sensitive to the way tax matters are expected to be resolved, and the stage of negotiations or discussion with the relevant tax authorities. There may be significant uncertainty around the outcome of tax proceedings, which in many instances, will only be concluded after several years.

Management estimates are informed by several factors including, inter alia, the progress made in discussions or negotiations with the tax authorities, the advice of expert legal counsel, precedent set by the outcome of any previous claims, as well as the nature of the relevant tax environment.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made. These risks are managed in accordance with the Bank's policies.

Notes to the annual financial statements

for the year ended 31 December 2022

46. Commitments and contingencies (continued)

46.4 Leases – Bank as lessor

The Group acts as lessor of rental space. These leases have an average life of between three and five years with renewal options included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Rental income recognised by the Group during the year is Shs 46 million (2021: Shs 40 million). As part of managing the risk the Group retains in the underlying asset, the Group requires leasses' to make a minimum deposit of three months rentals refundable upon expiry of the leases.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

	2022 Shs'million	2021 Shs'million
Within one year	**36**	40
After one year but not more than five years	**199**	160
	235	200

47. Dividends per share

The Directors recommend a final dividend of Shs 1.15 per share in respect of the year ended 31 December 2022 (2021: 1.10). An interim dividend of Shs 0.20 (2021: Nil) was paid during the year amounting to Shs. 1 086 million (2021 Nil). This will bring the total dividend for the year to Shs 1.35 (2021: 1.10) per share amounting to Shs 7 333 million (2021: 5 975 million).

Payment of dividends is subject to withholding tax at a rate of 5% for residents and 10% for non-residents.

48. Subsequent events

The estimates and judgements applied to determine the financial position at 31 December 2022, most specifically as they relate to the calculation of impairment of loans and advances, were based on a range of forecast economic conditions as at that date.

The directors are not aware of any other events (as defined per IAS 10 Events after the Reporting Period) after the reporting date of 31 December 2022 and the date of authorization of these consolidated annual financial statements.

49. New accounting pronouncements

Adoption of new and revised Standards

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group's financial statements.

Notes to the annual financial statements

for the year ended 31 December 2022

49. New accounting pronouncements (continued)

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to

accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

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

The Group is currently assessing the impact of the amendments.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

The amendments confirm the following, on initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction. After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

Subsequent accounting for the lease liability

The seller-lessee would reduce the lease liability as if the 'lease payments' estimated at the date of the transaction had been paid. It would recognize any difference between those lease payments and the amounts actually paid in profit or loss. It could determine the lease payments to be deducted from the lease liability in a number of ways – e.g. as 'expected lease payments' or as 'equal periodic payments' over the lease term.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.

Under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, a seller-lessee will need to apply the amendments retrospectively to sale-and-leaseback transactions entered into or after the date of initial application of IFRS 16. This means that it will need to identify and re-examine sale-and-leaseback transactions entered into since implementation of IFRS 16 in 2019, and potentially restate those that included variable lease payments.

The amendments are not expected to have an impact on the Group's financial statements.

Classification of Liabilities as Current or Non-current, and Non-current Liabilities with Covenants (Amendments to IAS 1, Presentation of Financial Statements)

The amendment clarifies that the classification of liabilities as current or non-current is based solely on a company's right to defer settlement for at least 12 months at the reporting date. The right needs to exist at the reporting date and must have substance.

Only covenants with which a company must comply on or before the reporting date may affect this right. Covenants to be complied with after the reporting date do not affect the classification of a liability as current or noncurrent at the reporting date. However, disclosure about covenants is now required to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability. If a liability has any conversion options, then those generally affect its classification as current or noncurrent, unless these conversion options are recognized as equity under IAS 32, Financial Instruments: Presentation.

The amendments apply retrospectively for annual reporting periods beginning on or after 1 January 2024, with early application permitted.

The Group is currently assessing the impact of the amendments.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Shareholders' Information

Notice of the Annual General Meeting

ABSA BANK KENYA PLC

Notice of the 44th Annual General Meeting

Notice is hereby given that the **Forty–fourth (44th) Annual General Meeting** of the Shareholders of Absa Bank Kenya PLC (the "Company") will be held via virtual means on T**hursday May 25, 2023** at **10:00 a.m**. to transact the following business:-

Agenda

1. Constitution of the Meeting

The Secretary to read the notice convening the meeting and determine if a quorum is present.

2. Ordinary Business

i. Annual Report, Financial Statements, Directors' and Auditors' reports for the year ended December 31, 2022:

To receive, consider and if thought fit, adopt the Audited Annual Report and Financial Statements for the year ended December 31, 2022 together with the reports of the Directors, the Board Chairman, the Managing Director and the Auditor.

ii. Dividend

To approve and ratify the interim dividend of Kshs. 0.20 per ordinary share paid on October 12, 2022 and to declare a final dividend of Kshs. 1.15 per ordinary share payable net of withholding tax, on or about **May 25, 2023** to shareholders on the Register of Members as at the close of business on **April 28, 2023**.

iii. Election of Directors

a) Directors retiring by rotation

In accordance with Articles 103, 104 and 105 of the Company's Articles of Association, the following Directors retire by rotation and being eligible, offer themselves for re-election:

i. Charles Muchene

ii. Fulvio Tonelli

b) Directors appointed to fill a casual vacancy on the Board

In accordance with Article 110 of the Company's Articles of Association, the following directors Kedibone Imathiu and Abdi Mohamed appointed to fill casual vacancies, are due for retirement this being the first Annual General Meeting that is being held since their respective appointments, and being eligible, offer themselves for re-election.

c) Director who has attained the age of seventy years

Pursuant to the guideline contained in Paragraph 2.5.1 of the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, to approve the continuation in office as a Director of Mr. Japheth Olende, who has attained the age of seventy (70) years, until he next comes up for retirement by rotation.

d) Board Audit and Risk Committee members

In accordance with the provisions of Section 769 of the Companies Act, 2015, the following Directors, being members of the Board Audit & Risk Committee be appointed by shareholders to continue serving as members of the Board Audit and Risk Committee:

i. Christine Sabwa (Chair)

ii. Louis Otieno

iii. Fulvio Tonelli

iv. Patricia Ithau

v. Kedibone Imathiu

iv. Remuneration of Directors

To receive, consider and if thought fit approve the Directors' Remuneration Report and to authorize the Board to fix the Directors' remuneration for the year ending December 31, 2023.

v. Appointment of Auditors

To consider and if thought fit, re-appoint KPMG Kenya, Certified Public Accountants, as the External Auditors of the company, having expressed their willingness to continue in office accordance with section 721 of the Companies Act No. 17 of 2015, and to authorize the Board of Directors to fix their remuneration in line with section 724 of the Companies Act No. 17 of 2015.

Notice of the Annual General Meeting

3. Any Other Business

To transact any other business of the Company for which due notice has been received.

By Order of the Board

Loise W. Gakumo
Company Secretary

May 2, 2023

Notes:

1. The Company will be holding a virtual AGM as permitted by Article 74 of its Articles of Association replicated below:

   74. The Members may, if they think fit, or if the Directors notify them that such is the manner in which any particular meeting would be held, confer or hold a meeting by radio, telephone, closed circuit television, video conferencing or other electronic, or other, means of audio or audio/visual communication, or a combination thereof ("Conference"). Notwithstanding that the Members are not present together in one place at the time of the Conference, a resolution passed by the Members constituting a quorum at such a Conference shall be deemed to have been passed at a General Meeting held on the day on which and at the time at which the Conference was held. The provisions of these relating to proceedings of Members apply insofar as they are capable of application mutatis mutandis to such Conference. Such a general meeting shall be deemed to have been held at the registered office of the Company.

2. Shareholders wishing to participate in the meeting should register for the AGM by visiting the online portal https://digital.candrgroup.co.ke or via a link to the AGM Platform that will be sent via SMS and/Email or dialling ***483*133#** across all Kenyan Networks and following the various prompts regarding the registration process. In order to complete the registration process, shareholders will need to have their ID/Passport numbers which were used to purchase their shares and their Shares Account or CDSC Account Number at hand. For assistance shareholders should dial the following **helpline number (020) 869 0360** from 9:00am to 4:00pm from Monday to Friday. Any shareholder outside Kenya should dial the helpline number or email digital@candrgroup.co.ke to be assisted to register.

3. Registration for the AGM opens on **Tuesday May 9, 2023** at 8:00am (Kenya time) and will close on **Tuesday May 23, 2023** at 12:00noon (Kenya time). Shareholders will not be able to register after Tuesday May 23, 2023 at 12.00 noon.

4. In accordance with Section 283 (3) of the Companies Act, 2015, the following documents may be viewed on the Company's website www.absabank.co.ke i) a copy of this Notice and the proxy form; ii) the Company's Integrated Report together with the audited financial statements for the year 2022.

5. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:

   (i) Using the sms/email link to the event provided after registration is completed, or

   (ii) accessing https://digital.candrgroup.co.ke; selecting "Attend Event", "ABSA AGM", "Q&A" tab and submitting their questions; or

   (iii) dialling the USSD code ***483*133#** and following the menu prompts to the "Ask Questions" menu option and entering their question as a text message.

   (iv) Sending their written questions by email to digital@candrgroup.co.ke; or

   (v) to the extent possible, physically delivering their written questions with a return postal address or email address to the registered office of the Company at Absa Headquarters, Waiyaki Way, Nairobi or to Custody and Registrars Services offices at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue; or

   (vi) sending their written questions with a return postal address or email address by registered post to the Company's address at P.O. Box 30120-00100 Nairobi.

   Written Questions

   Shareholders must provide their full details (full names, ID/Passport Number, Shares or CDSC Account Number) when submitting their questions and clarifications by email, post or delivery. All written questions and clarifications must reach the Company on or before Tuesday May 23, 2023 at 10:00am. Following receipt of the questions and clarifications, the directors of the Company shall provide written responses to the questions received to the return postal address or email address provided by the shareholder, no later than 12 hours before the start of the general meeting.

Notice of the Annual General Meeting

Questions via the AGM portal

Shareholders will be able to ask questions on the virtual AGM platform up to and during the AGM using the online portal or the USSD code.

Live Questions during the AGM

There will be opportunity provided for shareholders to virtually join the AGM to ask their questions during the meeting. Shareholders wishing to ask their questions live during the AGM can join the meeting room during the AGM (by selecting the "Join AGM Meeting Room" tab at the bottom of the live stream display window). In the meeting room shareholders can continue watching the AGM broadcast and either i) select "raise hand" option on their screen to request an opportunity to ask their questions live to the Board or ii) enter their questions in the live chat to be read out to the Board during the AGM.

Shareholders should note that it may not be possible to answer all questions during the AGM. A full list of questions received, and the answers thereto will be published on the Company's website 48 hours after the conclusion of the general meeting.

6. Shareholders will be allowed to vote up to and during the AGM by accessing the sms/email access link for the AGM sent after registration or via the online portal https://digital.candrgroup.co.ke or dialling USSD Code ***483*133#** and following the various prompts regarding the voting process. Voting results will be announced in the meeting prior to the conclusion of the AGM. The voting results will also be published within 48 hours of the conclusion of the meeting on the Company's website: www.absabank.co.ke.

7. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company but if not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone. A proxy form is available on the Company's website www.absabank.co.ke. Physical copies of the proxy form are also available at the following address: **Custody and Registrars Services offices, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue.** To be valid, the proxy form must be duly completed by the shareholder, or his attorney duly authorized in writing. If the shareholder is a body corporate, the instrument appointing the proxy shall be given under its common seal (if any) or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to proxy@candrgroup.co.ke in pdf format or delivered to Custody and Registrars Services, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue Nairobi or be posted to Custody and Registrars Services, P. O. Box 8484-00100 Nairobi, so as to reach the Registrar not later than **10.00 a.m.** on **Tuesday May 23, 2023**. The duly completed form must be supported by a copy of ID/ valid Passport of the member and include the ID/Passport, email or telephone number of the proxy to facilitate registration. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than 4pm on Wednesday May 24, 2023 to allow time to address any issues.

8. The AGM will be accessible to shareholders who will have registered to participate in the general meeting. Duly registered shareholders and proxies will receive a short message service (SMS) or an email prompt on their registered mobile number/email address, which shall be sent one (1) day before the AGM, reminding duly registered shareholders and proxies that the AGM will be the following day. A second sms/email prompt will be sent to duly registered shareholders on the day of the AGM with a link to access the Virtual AGM broadcast, the voting and Q&A tabs, and the virtual meeting room link.

9. Duly registered shareholders and proxies can also access the Virtual AGM using their log in credentials via https://digital.candrgroup.co.ke. Shareholders without internet access can access the Virtual AGM voting menu via USSD ***483*133#.**

All present and former shareholders of the Company are hereby notified that pursuant to the provisions of the Unclaimed Financial Assets Act No 40 of 2011 Parts II and III, dividends and shares which have not been claimed for a period of three (3) years or more will require to be delivered to the Unclaimed Financial Assets Authority ('the Authority') as abandoned assets on the appointed date.

For any unclaimed dividends, the preferred method of paying dividends which are below Kshs. 140,000 is through M-PESA. Shareholders who wish to receive their dividend through M-PESA and who have not registered for this mode of payment can opt to receive future dividends by dialling ***483*038#** or contacting the Share Registrar, Custody & Registrars Services Limited.

Therefore, all present and former shareholders with unpaid dividends are requested to urgently contact the Share Registrar, Custody & Registrars Services Limited at the address indicated below to claim any unpaid dividends to avert the risk of the dividends being forwarded to the Authority.

Custody & Registrars Services Ltd (C&R Group)
IKM Place, Tower B, 1st Floor
5th Ngong Avenue, Nairobi
Tel + 254 20 760 8216
Email: info@candrgroup.co.ke

Proxy form

Custody and Registrars Services Limited
IKM Place, Tower B, 1st Floor, 5th Ngong Avenue
P. O Box 8484-00100, Nairobi

*I/We ____

____of_________________________

____being *a member/members of Absa Bank Kenya PLC, hereby appoint:

____

____

of (address, email and telephone number)

____

____

____

____

or failing *him/her ____

____

of (address, email and telephone number)

____

____

____

____

and failing *him/her the Chairman of the meeting as *my/our proxy to vote for *me/us on *my/our behalf at the Forty-Fourth Annual General Meeting of the Company to be held on **Thursday May 25, 2023** and at any adjournment thereof.

As witness *I/we affix *my/our *hand/hands this________________________ day of ________________2023.

Signature(s) ____

Unless otherwise instructed, the proxy will vote as *he/she thinks fit.

Delete whichever is not applicable.

Proxy form

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2. Registration for the AGM opens on **Tuesday May 9, 2023** at **8:00a**m (Kenya time) and will close on **Tuesday May 23, 2023** at **12:00noon** (Kenya time). Shareholders will not be able to register after Tuesday May 23, 2023 at 12.00noon.
3. In accordance with Section 283 (3) of the Companies Act, 2015, the following documents may be viewed on the Company's website www.absabank.co.ke i) a copy of this Notice and the proxy form; ii) the Company's Integrated Report together with the audited financial statements for the year 2022.
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   (iv) Sending their written questions by email to digital@candrgroup.co.ke; or
   (v) to the extent possible, physically delivering their written questions with a return postal address or email address to the registered office of the Company at **Absa Headquarters, Waiyaki Way, Nairobi** or to **Custody and Registrars Services offices at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue**; or
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   Shareholders must provide their full details (full names, ID/Passport Number, Shares or CDSC Account Number) when submitting their questions and clarifications by email, post or delivery. All written questions and clarifications must reach the Company on or before Tuesday May 23, 2023 at 10:00am. Following receipt of the questions and clarifications, the directors of the Company shall provide written responses to the questions received to the return postal address or email address provided by the shareholder, no later than 12 hours before the start of the general meeting.

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5. Shareholders will be allowed to vote up to and during the AGM by accessing the sms/email access link for the AGM sent after registration or via the online portal https://digital.candrgroup.co.ke or dialing USSD Code ***483*133#** and following the various prompts regarding the voting process. Voting results will be announced in the meeting prior to the conclusion of the AGM. The voting results will also be published within 48 hours of the conclusion of the meeting on the Company's website: www.absabank.co.ke.

Proxy form

6. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company but if not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone. A proxy form is available on the Company's website www.absabank.co.ke. Physical copies of the proxy form are also available at the following address: **Custody and Registrars Services offices, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue**. To be valid, the proxy form must be duly completed by the shareholder, or his attorney duly authorized in writing. If the shareholder is a body corporate, the instrument appointing the proxy shall be given under its common seal (if any) or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to proxy@candrgroup.co.ke in pdf format or delivered to **Custody and Registrars Services, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue Nairobi** or be posted to **Custody and Registrars Services, P. O. Box 8484–00100 Nairobi**, so as to reach the Registrar not later than 10.00 a.m. on **Tuesday May 23, 2023**. The duly completed form must be supported by a copy of ID/ valid Passport of the member and include the ID/Passport, email or telephone number of the proxy to facilitate registration. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than 4pm on Wednesday May 24, 2023 to allow time to address any issues.
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For any unclaimed dividends, the preferred method of paying dividends which are below Kshs. 140,000 is through M-PESA. Shareholders who wish to receive their dividend through M-PESA and who have not registered for this mode of payment can opt to receive future dividends by dialling ***483*038#** or contacting the Share Registrar, Custody & Registrars Services Limited.

Therefore, all present and former shareholders with unpaid dividends are requested to urgently contact the Share Registrar, Custody & Registrars Services Limited at the address indicated below to claim any unpaid dividends to avert the risk of the dividends being forwarded to the Authority.

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