Absa Bank Kenya PLC

Integrated Report and
Annual Financial Statements 2023

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***

Our ability to create, protect and preserve value is dependent on resources and relationships. We are inter-connected with our stakeholders and our contribution to their aspirations is a critical aspect of our strategy and business model. 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. The range and extent of engagements is vast, and our approach is informed by the specific stakeholder as well as the need for engagement. Overarchingly, our intent is to be responsive to their needs and expectations while ensuring we create stakeholder value.

**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 Climate Report expected in June 2024

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About this report

Welcome to our 2023 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 "empowering Africa's tomorrow, together …one story at a time" 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 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 41-42.

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

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.

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

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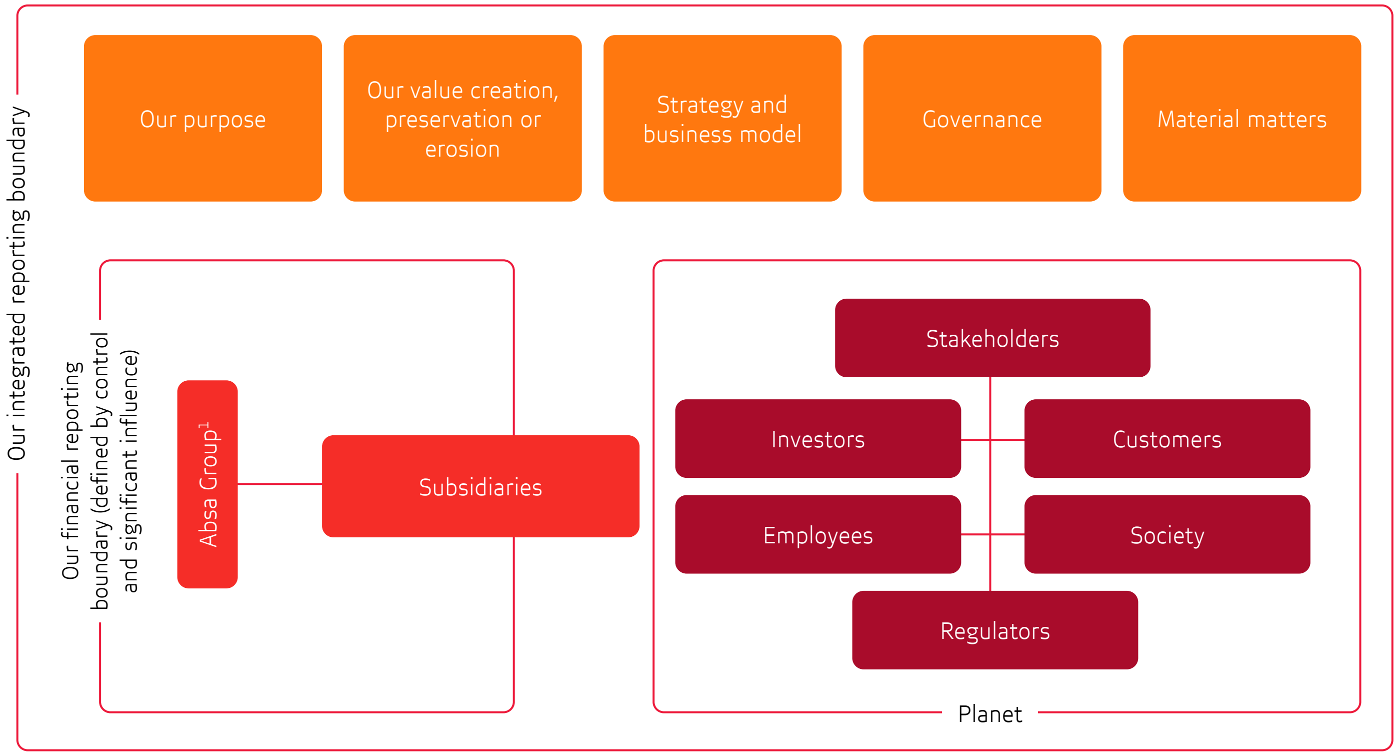
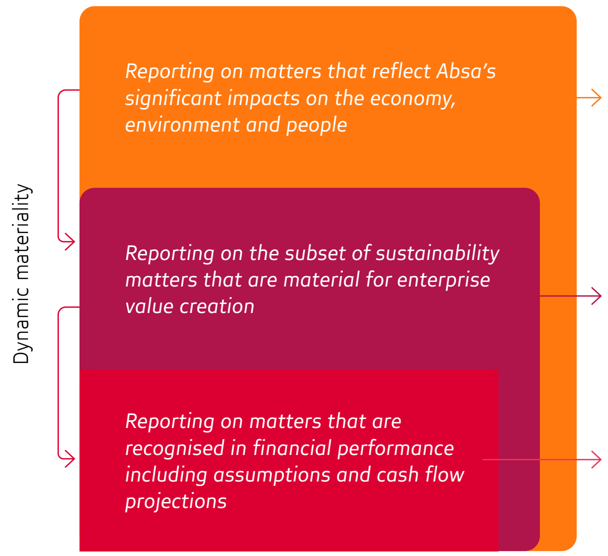
Integrated reporting scope and boundary

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.



Reporting suite

The Annual Integrated report is intended to provide information to investors on how the Bank creates and protects value while minimising value erosion over the short, medium and long term. This report covers a specific mandate and is supplemented by diverse other publications which provide additional or complementary disclosures relevant to broader stakeholder groups.



Absa Bank Kenya annual reporting suite 2023

Environmental, social and governance disclosures

2023 Sustainability report
2023 Task force on Climate-related Financial Disclosures (TCFD) report

Annual Integrated Report

Financial and risk disclosures

2023 Quarterly Investor Briefings
2023 Half Year Investor Briefing
2023 Q3 Financial Results
30 June 2023 Unaudited group results
2023 Q1 Financial Statement

Our bank

Absa Group presence

Absa is a Pan-African group, inspired by the people we serve and determined to be a globally respected organisation that Africa can be proud of.

We have operated in Africa for over 100 years. We are committed to finding tailored solutions to uniquely local challenges, and everything 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. We empower and enable – from investing in our employees to uplifting our communities and enabling our customers' ambitions. We unlock opportunities through imagination, energy and passion, finding innovative solutions.

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

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	2 130	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

Purpose is at the core of everything we do

Absa aspires to be a truly purpose-led organisation. This means making a proud and positive contribution to the world around us and putting our purpose at the core of everything we do.

This year, we began an immersive and inclusive journey to assess whether our purpose statement, **bringing possibilities to life**, continues to reflect who we want to be as a business. We started by unpacking the building blocks that sit at the intersection of what the world needs, what we have to offer, and what will make us proud. To do this, we conducted offsite workshops with our senior leadership team, engaged with our employees through surveys and virtual platforms, and held discussions with the Board and ExCo. What emerged were key themes around our role in powering Africa's possibilities, enabling our clients to realise their dreams, investing in people and exemplifying integrity. Building on this input, we finalised our new purpose statement in January 2023:

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

Each word signifies a clear meaning and emotion:

Empowering

As a financial institution we empower and enable – from investing in our colleagues to uplifting our communities and enabling our clients' ambitions.

Empowering is active, every moment, walking together as partners.

We unlock opportunities for our clients through imagination, energy and passion, and finding innovative solutions.

Empowering ensures we invest in people and their capabilities.

Africa's

Our heartbeat is African. We are committed to a Pan-African presence and contribution.

We cherish our home; we care for it, and we invest in it. We feel a sense of wellbeing and warmth. Africa is a home we are proud of.

It is the continent of our birth more than 100 years ago.

tomorrow

We value our heritage and embrace the challenge of reimagining a better tomorrow – for our colleagues, our clients, and our communities. We know that every action we take, has a consequence for a meaningful tomorrow.

We relentlessly deliver on our commitments today with a long-term mindset through good times and bad.

We are stewards of a sustainably better world. Tomorrow embodies the aspiration of youth and future generations. Tomorrow represents one day to many years.

together

We are a trusted and caring partner, committed to working with all our stakeholders.

We embrace diversity and inclusivity. This strengthens us, unleashes everyone's full energy and enables better outcomes.

We are a collective, holding ourselves and each other accountable for our outcomes.

We are stronger together than alone.

We listen to many perspectives while remaining decisive. We work together to bring our strategic ambitions to life.

...one story at a time

Brick by brick we build a masterpiece – no matter how big or small.

We embrace Africa's heritage of storytelling. Stories bind us.

We see you. We hear your story – it inspires us to act and grounds us in what is real.

We believe that being purpose-led is essential, enabling the Group to navigate difficult choices with agility and ensuring we meet the needs of our broader stakeholders while also rallying and inspiring our people and clients. Ultimately, an embedded sense of purpose will support our long-term sustainability. Part of delivering on this purpose is having clear leadership commitments.

Our organisational purpose is unique and clearly articulated. It is brought to life in the interactions of our leadership, management, employees, customers, suppliers, host governments and local communities. Our conduct and how we do things are consistent with our purpose.

Absa ownership and reporting structure

Absa Group Limited structure

Absa Group Limited

- 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

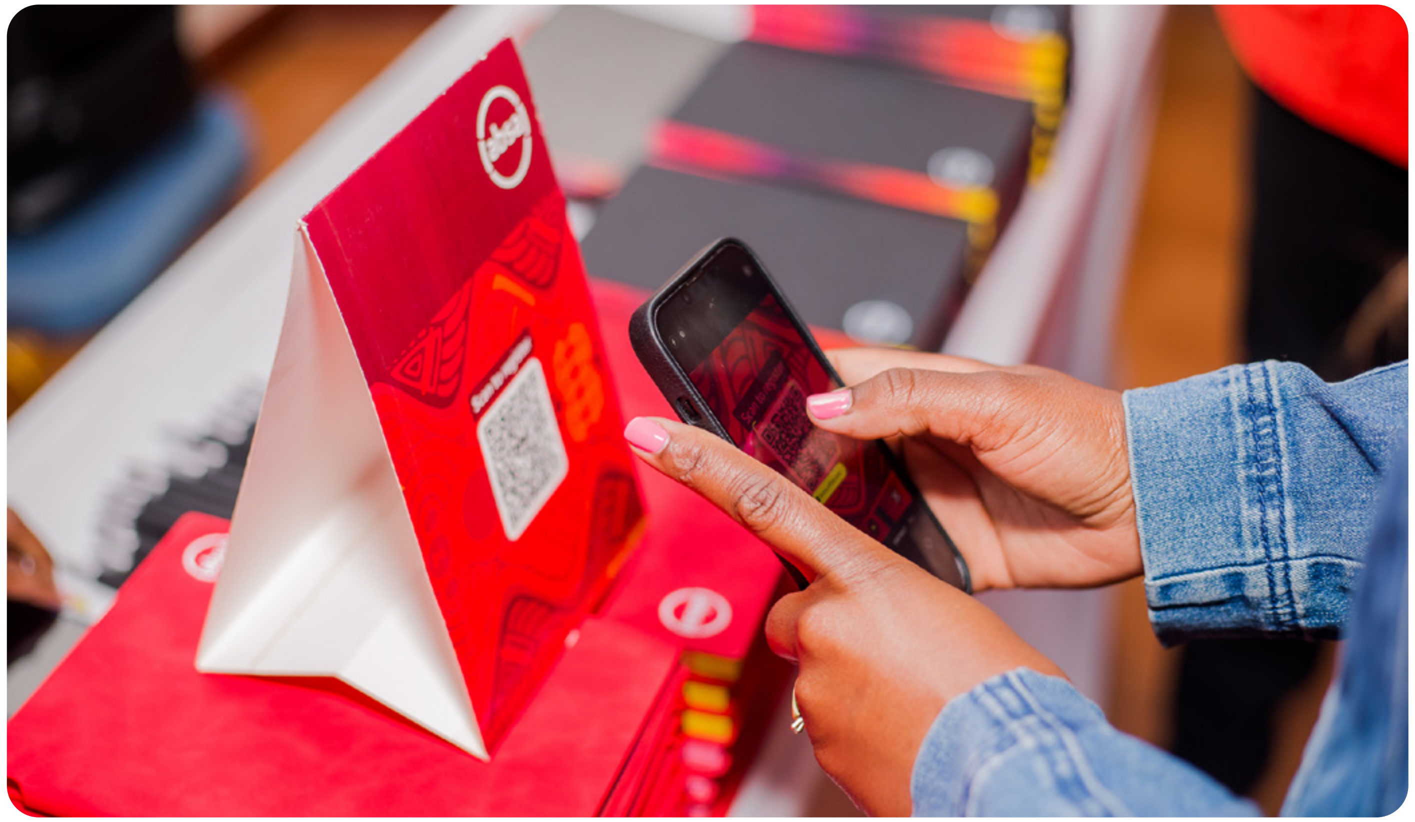
- Absa Group Limited 68.5%
- Other public shareholders 31.5%

Absa Bank Kenya PLC

- 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:

16.4bn **Headline earnings** (2022: 14.6bn) (2021: 10.9bn)	**362.7bn** **Deposits** (2022: 303.8bn) (2021: 269bn)	**62.2bn** **Market capitalisation** (2022: 66.8bn) (2021: 64.4bn)
23.7% **Return on equity** (2022: 22.9%) (2021: 19.3%)	**42%** **Cost-to-income ratio** (2022: 41%) (2021: 46%)	**335.7bn** **Net customer loans** (2022: 283.6bn) (2021: Shs 234bn)
2 130 **Employees** (2022: 2 070) (2021: 1 979)	**51:49** **Employee gender (F:M)** (2022: 50:50) (2021: 51:49)	**1 047 422** **Customers** (2022: 1 009 287) (2021: 917 507)

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 meet 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.

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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 83 branches, 196 ATMs, 60 cash deposit machines and 5 209 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.

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Our value-creating business model

Our inputs – the resources and relationships on which we rely		Availability, quality and affordability of capitals
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.	• Deposits – Shs 303.8bn • Market capitalisation - Shs 66.8bn	• Forex liquidity challenges in entire sector • Improved deposits
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.	• Reputable and leading brand • Strong brand knowledge and growing affinity • 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.	• 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
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.	• 2 070 employees • Shs 10.7bn paid in employee benefits • 60% enabled to work from home • Customer obsessed and performance focused culture • A vibrant, fun and great place to work • Employee attrition rate – 7.1% • Awards – Top Employer Award 2022 • Colleague experience index – 73.4% • Job satisfaction - 7.81	• 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
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.	• 83 branches • 196 ATMs • 60 cash deposit machines • 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 • Alternative channels - mobile and internet banking	• Alternative channels • Strategically placed branches • Enhanced and expanded digital proposition
Social and relationship capital Relationships with stakeholders, especially the communities within the areas we operate in, are central to our business environment. We acknowledge our role in contributing to both a prosperous society and a strong financial ecosystem.	• Customer experience index 71.9% • 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% • Sustainable strategic partnerships • Sustainable investments • Robust stakeholder relationships management • Progressive women in business proposition	• Strong and trusted brand • Best-in-class youth empowerment programme
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.	• Sustainability programme established • Sustainable premises • Sustainable use of natural resources • Signatory of the Principles for Responsible Banking (PRB) • Aligning to Principles of Sustainable 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 • 6% - growth in total assets • 19% - growth in customer deposits • 18% - growth in revenue • 42% - normalised cost-to-income ratio • 23.7% - normalised return on equity • Employee wages and benefits Shs 11.7bn • Payments to providers of capital Shs 8.4bn • Payments to government Shs 16.2bn • Community investments Shs 150m • Total capital financing Shs 335.7bn • Green investment Shs 26.9bn • Local procurement spend Shs 4.5bn		• Diversify revenue streams • Cost reduction through digitisation • Enhanced operational efficiency
Intellectual Capital • Recorded improved Net Promoter Scores (NPS) at branch level • Improved availability of Timiza platform for customers with 1 125 276 loans advanced in 2023		• Improved customer engagement • AI in fraud analytics
Human capital • 2 130 service-oriented employees • Awards – Top Employer Award 2023 • Colleague experience index – 75.3% • Job satisfaction - 8.02		• 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 12% • Disbursed Timiza loans worth Shs 20.7bn • Core Banking and Digital Channels availability - 99% • ATM uptime - 99%. • 60% of back-office processes fully digitised		• Deployment and improvement of digital propositions • Increased platform stability
Social and relationship capital • Full regulatory compliance • 252 014 youth empowered through ReadytoWork • 15 939 women entrepreneurs benefited from women in business • Consumers participating in financial education • Treating customers fairly score 90%		• Leveraging strategic partnerships • Shifting from debt-led customer relationships to transactional relationships, • Winning customer primacy
Natural capital • Branch energy improvement programme • 8.3% reduction in energy footprint • Green building certification – 5 premises EDGE certified • 728 095 trees planted		• Just carbon transition

Impacts

Economic impact SDG 8 SDG 10
- Payments to government entities Shs 16.2bn
- Spend on local vendors Shs 4.5bn

Benefits to our people SDG 8 SDG 10
- 40% of our Board is made up of women
- 49% of our management constitutes women
- 51% of our employees are women

Contribution to our communities SDG 4 SDG 12 SDG 15 SDG 17
- 20 274 youth trained through ReadytoWork totaling to 252 014 to date
- 574 needy students supported to access university education to date
- 65 schools supported with computer labs to date
- Shs 219m allocated for sustainability and citizenship initiatives
- 12% of our active suppliers are women, youth and PWDs

Impact on the environment SDG 7 SDG 8 SDG 12 SDG 15 SDG 17
- Total trees planted to date is 1 031 759
- Shs 26.9bn disbursed to support climate finance
- 4 066 tCO_2e carbon emissions recorded

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

Kenya Bankers Association SFI (Sustainability) Awards 2023
- Best in Sustainable Finance
- Best in Bank Operations
- 1st Runner up for Promoting Gender Inclusivity
- 2nd Runner up: Most Innovative Brand
- 2nd Runner up: Overall KBA SFI Awards 2023 Edition.

Think Business Awards 2023
- Best Bank in Asset Finance -Winner
- 1st Runners up: Best Bank in Agency Banking-
- 2nd runners up: Best Bank in Retail Banking
- 2nd runners up: Best Bank in Product Innovation
- 2nd Runners up: Best Bank in Trade Financing

Best Bank for Trade Finance in Africa
- Best Bank for Cash Management in Africa
- Best Trade Finance Platform Initiative in Africa
- Best API Initiative of the Year in Kenya

Employer of the year awards 2023 (EYA 2023)
- Winner: Human Resource practice and Industrial Relations
- 1st runners up: Learning and Development

Finnovex East Africa Awards 2023
- Excellence in Digital Banking

Service Excellence Awards 2023
- 2nd Place: Best Internal Customer Experience

Our strategy

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Reflections from the Chairman

Charles Muchene
Chairman, Board of Directors

> "We are a purpose-led Bank that focuses on creating broad based stakeholder value and impact for society"

2023 marked the inaugural year of executing our new ambitious five-year strategy, which is designed to deliver market-leading business growth while building sustainable value for all our stakeholders. This strategy is premised on our corporate purpose of "Empowering Africa's tomorrow, together, one story at a time," and seeks to cement the Bank's positioning as the preferred financial partner for growth.

The Board is pleased with the progress made by the management team in strategy implementation, which is reflected in the strong financial as well as non-financial performance recorded in the year. Despite a challenging operating environment that was characterised by an interplay of complex macro-economic factors, the organisation demonstrated strong resilience and unwavering commitment to continue providing tailored financial solutions that meet the diverse needs of individuals, businesses, and communities.

We further increased our efforts to diversify revenue, resulting in remarkable performance across new business lines such as bancassurance and asset management, both of which grew in excess of 40% during the year. As a result, total revenue increased by 19% to Shs 54.6 billion, propelling profit after tax up 12% to Shs 16.4 billion. This resulted in an impressive 23.7% return on equity, demonstrating our commitment to continue increasing value for our shareholders.

The year under review also marked a pivotal moment in the leadership of our business with the onboarding of our new Managing Director, Abdi Mohamed. The Board is proud of the seamless transition and business continuity throughout the process which ensured that the company remained on a growth trajectory.

The role we play in driving Kenya's growth

We have made significant progress in our commitment to continue expanding access to capital and providing entrepreneurial mentorship to our customers and communities. Notably, in the year under review, customer loans and advances increased by 18% to Shs 336 billion, with a strategic focus on vital economic sectors such as Small and Medium Enterprises (SMEs), which are critical to Kenya's economic dynamism.

Through Timiza, our mobile lending platform, we continued to deepen financial inclusion by advancing more than Shs 21 billion in micro-loans issued to a segment of the population that is considered financially excluded. To increase women's participation in business, 30% of the Shs.15.1 billion we advanced to the MSME sector went to women-led enterprises.

We also trained over 10,000 small business owners across the country, helping them to unlock their entrepreneurial potential.

We continued to support our corporate clients and their value chains to ensure that we are promoting growth across sectors and economic segments. Our partnerships with large local and international corporations continue to drive cross-sector growth and have allowed our clients to expand, increasing opportunities for entrepreneurs and creating employment.

Enhancing customer experience through technology

We have made significant investment in our digital transformation initiatives, designed to continue improving customer experience and to increase operational efficiencies. This is in line with our strategic ambition of transforming into a digitally powered business, one that effectively leverages the power of technology and innovation to enhance market competitiveness and drive growth. I am confident that, as a result of these efforts, our organisational efficiency levels will continue to improve while at the same time achieving higher customer satisfaction.

Our increased focus on sustainability

As a financial institution, we recognise our role as stewards in a world that is increasingly attuned to environmental, social and governance imperatives. Throughout the year, we made significant progress in our sustainability agenda, which is supported by a firm commitment to ensuring that our operations, and those of our customers, are in line with environmental and social imperatives. We invested over Shs. 22 billion in sustainability-linked loans and financed projects in renewable energy, green construction, and climate-smart agriculture. This remains a focal point as we continue to strive to be an active force for good in all our endeavours.

Moreover, we continued to actively promote diversity and inclusivity, as we believe that this not only strengthens us but also unleashes everyone's full potential, leading to better results.

Board matters

The Board had a busy year in 2023, but it primarily focused on overseeing the delivery of the Bank's strategy, emphasising prudence, transformation, and momentum for sustained growth and sound management. It also reviewed and approved the Bank's digital maturity strategy and prepared for the next phase of transformation.

During the year, we bid farewell to Dr Laila Macharia after a successful nine-year tenure as a non-executive director during which she made immense contribution to our organisation's growth and success. The Board expresses its gratitude for her commitment to positive transformation and wishes her the best in her future endeavours.

Additionally, the Board expresses its appreciation and best wishes to the former Company Secretary, Loise Gakumo, for her diligent service during her four-and-a-half-year tenure. Following Ms Gakumo's departure, Mr. Wilson Murage was appointed as the interim Company Secretary.

A positive outlook

Looking forward, we are confident in our ability to accelerate growth and create enduring value for all our stakeholders. With the Board's guidance and oversight, our management team will continue to diligently execute our strategy, aiming to position Absa as a modern and innovative consumer financial services provider, a leading partner for small and medium-sized businesses, and a corporate and investment banking powerhouse.

We remain steadfast in our digital transformation efforts with a view to continuously improve customer experience and operational efficiency, while further leveraging the Absa brand's strong market position and reputation. Furthermore, we are committed to enhancing our employee value proposition through investment in training, future skills development, and well-being, as we recognise that our people are the foundation of our success.

Our solid financial standing and capital position allow us to invest in relevant initiatives which empower our customers and stakeholders to pursue and achieve their ambitions, while effectively navigating external challenges.

Proposed dividend

Based on our improved profitability, and the need to strike a balance between the Company's requirement for continuing investments and meeting shareholder expectations, the Board has proposed to shareholders a final dividend payout of Shs.7.3 billion, translating to Shs 1.35 per ordinary share. Taken together with the interim dividend of Shs 0.20 per share paid in October 2023, the total dividend for the year amounts to Shs 8.42 billion, representing a 14.8% increase compared to the preceding year.

Appreciation

The outcomes for the financial year 2023 would not have been possible without the contributions of our many stakeholders who diligently performed their roles in concert, and for that I would like to express my gratitude.

I appreciate my colleagues on the Board for their invaluable insights and unwavering dedication, which have played a pivotal role in driving our achievements throughout the year. Equally, I commend the exceptional leadership and tireless efforts of our Bank's employees, whose commitment to excellence has consistently delivered outstanding results. Their collective effort, resilience, and dedication have laid a solid foundation for us to confidently pursue our strategic goals and fulfil our purpose.

On behalf of the Board, I appreciate our shareholders, who have trusted our business as a platform to grow their wealth. Our assurance is that we will do our very best to continue growing your business and hence enhance the value of your investment.

I would also like to thank our diverse stakeholders, including partners, suppliers, regulators, and the society at large, whose collaboration and support enable us to create enduring value. As we continue this remarkable journey together, we will seize every opportunity to write a compelling and inspirational story that shapes a brighter future for all.

Conclusion

We are inspired by our customers, whose diverse journeys and aspirations motivate us to continuously innovate to meet and exceed their expectations. We recognise the privilege of their trust and remain steadfast in our dedication to safeguarding their best interests.

As a Board, we are greatly inspired by the commendable progress and milestones attained by the business in the first year of execution of our new strategy. This has positioned the organisation on a strong footing to accelerate the execution of our strategic priorities, as we create shared value for all our stakeholders in line with our purpose of "Empowering Africa's tomorrow, together, one story at a time".

Charles Muchene
Chairman, Board of Directors

Reflections from the Managing Director and Chief Executive Officer

Abdi Mohamed
Managing Director and CEO

> "Banking is no longer purely about financial intermediation. Our stakeholders want us to be a key support as they pursue their diverse aspirations."

I am greatly privileged to write to you today, directly reconnecting with our valued shareholders who play a crucial role in our organisation. My return to Kenya since May 2023 signifies an exciting chapter in my career, which has spanned several decades at Absa.

The past year has been characterised by mixed fortunes, with some encountering unexpected challenges while others benefited from new opportunities for growth and progress. Amidst this backdrop, Absa Bank Kenya has remained a beacon of strength and stability, underscoring our commitment to navigate through times of immense change and challenge with great commitment. This is an opportunity and a responsibility we take very seriously. Reflecting on 2023, two pivotal themes emerge:

Firstly, we have made significant progress in positioning Absa to succeed in the current strategic horizon. This period has been pivotal for me as we rolled out our Group's new strategic direction across the country. We have noted progress in delivering on our strategy. However, we remain acutely aware of the enormous amount of work that needs to be done to enable us to transform into a full-service financial services group and a significant player in the financial sector.

Secondly, is how we continued to support our clients and other stakeholders. Our strategic plan is inspired by the ambitions of the people we serve and underpinned by our purpose of "Empowering Africa's Tomorrow Together...One Story at a Time." This signifies a bold departure from traditional banking norms and embraces a progressive, and community-centric approach. We exist to empower our customers, colleagues, communities, and shareholders to achieve their current and future aspirations, one story at a time.

Beyond commercial success, we are a forward-thinking organisation motivated by progress and the desire to thrive while ensuring our planet's sustainability. This is the foundation of our existence, as we carry out our immediate and medium-term business strategy based on Momentum, Prudence, and Transformation. By most measures, we ended the year in a stronger position than we started.

Resilient performance in a complex operating environment

Looking back at 2023, our performance occurred against a backdrop of financial sector and market dynamism. Global geopolitical and macroeconomic pressures had a broad impact on our key stakeholders. Lingering disruptions from historic inflationary pressures, including unprecedented volatility, widespread currency depreciation, and interest rate hikes, shaped our decision to prioritise short- to medium-term strategies to protect our business and continue to create shared value for our stakeholders. So, whilst the environment has shifted significantly, our strategy has remained unchanged, and we are committed to executing our plans and delivering results for our shareholders.

On Momentum, we have continued to grow our business while executing our strategy, resulting in an 18% increase in revenue. We intentionally designed our business mix to withstand different macroeconomic conditions and have seen the benefits borne out over the past year. This has been aided by our Bank's ongoing evolution through new propositions in our pursuit to become a full-fledged financial-services group, while also protecting our core segments. As part of our diversification strategy, we have enhanced our investments to capture emerging revenue pools in Consumer Payments, Diaspora Remittances, Investment Banking, Custody, Insurance, and Brokerage with the aim of accelerating revenue and balance sheet growth. As a result, in 2023, our customer assets increased by 18% to Shs 336 billion, while deposits increased to Shs 363 billion, a 19% growth, as we continued to provide our customers with the necessary financial and non-financial support to achieve their objectives.

On Prudence, we are strategically growing our business while remaining aware of the ongoing complexity of the operating environment, which includes addressable risks and opportunities. We anticipate that short-term economic challenges may have an impact on our delivery. However, we have developed the ability to identify transitory and structural economic moments. Our Non-Performing Loan (NPL) ratio of 9.6% with coverage ratio of 67% are lower than the industry average. Our prudence stems from our desire to create a sustainable business that provides above-industry returns to our shareholders.

On Transformation, over the past few years, we have implemented significant transformation programs that have revolutionised our operating model. This redesign has substantially reduced our structural costs, achieving a cost-to-income ratio of 40%. We expect this to continue supporting reinvestment in growth. We have developed an ambitious transformation investment plan aimed at expanding our business to serve more customers and increase our market share in a market with over 40 million potential customers. Part of our strategy includes opening new branches and enlarging our agency network to enhance customer accessibility and ensure we have a presence in every county. For our strategy to unlock the greatest possible value, we will need to continue modernising our infrastructure to have the appropriate scale and agility to deliver for our growing customer numbers.

A foundation for the future

Looking ahead and as we now engage in our new strategic horizon, we have absolute clarity, and are focused on accelerating growth, gaining market share, and increasing returns for shareholders over time.

Our focus is to transform into a modern consumer financial services business. This is important because our current consumer business has experienced a significant growth turnaround over the last five years. However, growth opportunities are limited because we are offering more of our existing products to our existing customer base. The Kenyan consumer market has undergone significant transformation, with consumers demanding greater value in the form of solutions, innovations, and customer experience. We intend to significantly transform our offerings and engagement with this segment to improve customer experience and propositions at every touchpoint.

Secondly, based on the expectation that small businesses will continue to be the country's economic drivers, we aim to become a market leader in Business Banking, driving economic growth and transformation. Over the last few years, we have built a Business Banking brand that stands out in the marketplace. Our new proposition aims to support the aspirations of one million female entrepreneurs over the next five years. In the broader small and medium enterprise segment, we see a significant potential to serve 7.4 million SME customers in a market where formal banking penetration remains low which creates a significant opportunity for revenue growth. Our ambition also aligns with the government's priorities of supporting the SME sector to drive growth and create job opportunities for the youth.

Our vision extends to becoming a leading Corporate and Investment Bank in connecting ecosystems. Leveraging on the global competitiveness of our former brand and our African footprint, we aim to become a leading facilitator of regional commerce. We believe that the strength of our franchise is to enable customers to better understand and serve their ecosystems and value chains. This belief is reinforced by the evolution, over time, of the global business case for multinationals requiring increased local relevance.

As a force for good in our society, we continue to embed sustainability into our strategy execution, having achieved several milestones such as EDGE certification for our premises, impacting over 245 000 youths through ReadytoWork, empowering over 10,000 women in business, and planting over 728 000 trees. We maintained our long-term commitment to sports development by allocating Shs 70 million towards the Magical Kenya Open and an additional Shs 60 million to sponsor the 2023 Kip Keino Classic. These investments not only reinforce the Absa brand locally but also generate diverse income opportunities for Kenyans. By positioning Kenya as a vibrant hub for tourism and sports, we affirm Absa's commitment to being a catalyst for positive change in society.

Greater connectivity and focus

To successfully execute and outperform the next horizon, we see our focus areas being supported by three broad enablers. Our first enabler is to digitally power our business since technology is transforming every aspect of commerce. Customer preferences have largely transformed and evolved towards more digital and self-service capabilities.

Our second enabler is building an always-on trusted brand that is driving a sustainable future. In today's market, where consumers favour brands with a conscience, it's essential for us to enhance our sustainable business practices, invest in meaningful and ethical branding, and be transparent about our credentials. Our goal is to significantly boost brand consideration and create shared value through our commitment to society and sustainability.

Our third enabler is to build a home of talent and diversity, recognising that talent is a crucial asset in a landscape where employee expectations are continually changing. We believe that fostering a culture of innovation is vital to our growth strategy, enabling us to attract and keep talent by offering a materially differentiated employee experience. Diversity and inclusion is also important in enabling the Bank to value each employee's individual strengths and contribution and fosters creativity and productivity.

To improve our team's experience, we have revamped our Employee Value Proposition around four main pillars: Care, Contribution, Career, and Culture. Significantly, we continued to be recognised as a Top Employer for the third consecutive year by the Top Employers Institute, affirming our commitment to making Absa a premier destination for talent.

Overall, our business strategy encompasses a comprehensive approach to driving social and economic transformation in the communities where we operate. Our goal is to achieve significant business transformation and deliver outperformance primarily by increasing our customer base to more than four million. Ultimately, our success will be measured by our ability to capture a market share of over 12%.

Conclusion

I am encouraged by the significant strides made in 2023 through our relentless commitment to excellence. We are changing the trajectory to close the gap with our competitors and deliver a new era of increased success for all our stakeholders. This progress heralds our ability to remain focused on our strategic intent, achieving what we set out to do despite unprecedented uncertainties that have created significant impacts on our business.

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. I look forward to our collaborative effort in bringing our purpose to life while building our great nation.

Our operating environment

A challenging recovery

The global economy is facing increased uncertainty due to the cumulative effects of significant shocks over the past three years. These include the lingering impacts of the COVID-19 pandemic, Russia's invasion of Ukraine, and the 2023 Israel–Hamas war. The consequences of these events are unfolding in unexpected ways, contributing to inflationary pressures driven by pent-up demand, persistent supply disruptions, and spikes in commodity prices. Central banks worldwide are responding with aggressive policies to curb inflation and anchor inflation expectations.

Forecasts indicate a decline in global GDP from 3.6% in 2022 to 3.1% in 2023 and 3.2% in 2024 and 3.2 in 2025[1]. The euro area, significantly impacted by Russia's aggressive actions against Ukraine and energy price shocks, is expected to see GDP growth of 0.6% in 2023, gradually rising to 0.9% in 2024 and 1.5% in 2025. China's growth is anticipated to slow from 5.2% in 2023 to 4.7% in 2024 and 4.2% in 2025, influenced by stresses in the real estate sector and persistently high household saving rates [2].

The Central Bank of Kenya (CBK) has taken measures to address concerns related to inflation and currency depreciation. Since 2022, the CBK has progressively increased the policy rate, reaching a cumulative rise of 425 basis points, bringing it to 13%. The policy rate increase is geared towards addressing inflation expectations within the CBK's target band[3]. This has shifted the real policy rate into positive territory, indicating judicious tightening of monetary policy in response to prevailing macroeconomic conditions.

Notably, the current account position has consistently been bolstered by strong diaspora remittances, which increased to USD 4.19 billion in 2023, a 4% increase from USD 4.03 billion remitted in 2022. Further, the Kenya shilling yielded to external pressures, weakening against the dollar throughout 2023. It traded at an average of Shs 150 per dollar compared to Shs 117.9 in 2022 and Shs 109.6 in 2021[4].

The risks posed by climate change to the financial sector and the broader economy have heightened. Several countries are grappling with prolonged and intensified droughts, widespread floods and mudslides, and severe storms, including typhoons and hurricanes. These events carry substantial physical, transition, and liability risks for the financial sector. As these countries face limited fiscal capacity to adequately address the impacts or implement adaptation measures, their vulnerabilities have escalated. Overall, East Africa has experienced adverse weather shocks, facing the worst drought in four decades. This not only exacerbated inflationary pressures but also led to severe food insecurity and the loss of livelihoods for millions of people.

Kenya's economy is projected to grow by 5.5% in 2024, compared to a growth of 5.6% in 2023. This uplift is rooted in the anticipated expansion of the agriculture sector, driven by favourable conditions such as long rains.

Looking ahead to the medium-term, the economy is expected to stabilise and achieve a growth rate above 6% by 2025. This trajectory is supported by the ongoing implementation of priority projects under the Bottom-Up Economic Transformation Agenda. Additionally, the envisioned recovery of global and Sub-Saharan African economic activities is expected to contribute to Kenya's sustained economic growth.

How it affects us

The ongoing global economic uncertainties have direct implications for our operations. Inflationary pressures, supply disruptions, and geopolitical shifts introduce challenges to our financial stability. Currency exchange rate volatility, particularly the depreciation of the Kenya shilling, directly affects international transactions. The associated climate risks and adverse weather conditions add further complexity to our risk landscape.

Severe drought, as part of adverse weather shocks, , not only contributes to inflationary pressures but also affects communities' livelihoods, necessitating strategic responses. As we navigate these challenges, our risk management strategies and contingency plans play a pivotal role in ensuring resilience and adaptability to the evolving economic environment.

How we are responding

- Leveraging opportunities presented by the growing economy.
- Supporting customers with climate smart and green solutions.
- Providing currency options like swaps to mitigate for currency fluctuations.
- Identifying climate risks and developing mitigation strategies.

Continuing competitive backdrop and changing customer needs

Recession concerns have gained prominence, while worries about stubbornly high inflation persist. There is a significant risk that the recent banking system turbulence may lead to a sharper and more persistent tightening of global financial conditions than initially foreseen in both the baseline and plausible alternative scenarios. Such a development could exacerbate the decline in business and customer confidence. Moreover, there is a concern about more severe contractionary effects resulting from simultaneous central bank rate hikes, especially given historically elevated levels of private and public debt. The confluence of increased borrowing costs and reduced growth has the potential to induce systemic debt distress in emerging market and developing economies. In addition, there is a possibility that inflation remains more stickier than expected, prompting a need for more extensive monetary tightening than currently anticipated.

Kenya faces high risk of debt distress, although the indicators for external debt sustainability are forecasted to show improvement in the medium term, ensuring a sustainable trajectory. Historically, Kenya has boasted a robust debt carrying capacity (DCC). However, in 2020, the DCC was downgraded to a medium level.

[1] IMF, October 2023 World Economic Outlook
[2] OECD Economic Outlook, November 2023
[3] CBK's Market Perception Survey, March 2023
[4] KIPPRA's Kenya Economic Report 2023: Cost of living and the role of market

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This shift was prompted by Kenya surpassing the external debt-to-exports ratio threshold, a trend anticipated to persist until 2025 when exports are expected to rebound. Additionally, Kenya exceeded the threshold for the external debt service and projections indicate that this trend will persist above the threshold due to expected international sovereign bond maturing in 2024 and rollover of commercial external loans coming in 2025.

Kenya's banking sector, comprising 38 commercial banks, showcased stability and resilience throughout 2022, effectively navigating emerging and legacy shocks such as drought, interest rate fluctuations, lingering effects of the COVID-19 pandemic, and institutional-specific risks. In 2023, the banking sector remained well-capitalised, boasting strong liquidity buffers and recording robust profit growth crucial for continued capital accumulation. However, downside risks to sector stability persisted, including elevated credit risks, potential interest rate volatility due to monetary policy tightening and risks associated with cybercrime, and climate change.

Operational and governance risks are anticipated to increase as Kenyan banks become more interconnected through sectoral and cross-border operations, driven by rapid technological innovations. This risk is heightened by the growing reliance on financial technology and innovations to provide financial products and services. In 2023, incidents related to fraud, data privacy, cyber-attacks, and cybersecurity threats increased. Recognising these challenges, authorities are now proactively implementing more prudent and stringent remedial controls and risk management measures to address these evolving risks.

Utilising USSD technology, fintech solutions such as Mobile Money services have been pivotal in fostering financial inclusion across Africa. GSMA's 2023 Mobile Money report underscores the transformation of mobile money into a mainstream financial service in numerous countries. The ascent of digital wallets, blockchain technology, and payment gateways further expedites financial inclusion, providing secure and efficient alternatives to traditional banking methods[5]. This trend is evident in the increasing adoption and active usage of these services.

M-Pesa, one of Africa's largest mobile money services, has consistently grown its customer base from 2017 to 2023, reaching over 56.7 million customers by March 2023. Collaborations between Telcos and financial institutions enhance the accessibility of banking and payment services, especially for individuals with limited access to traditional banking infrastructure. Integration of financial services with mobile networks allows previously unbanked individuals to conduct various financial transactions through their mobile devices.

The role of USSD-based fintech applications is expected to remain crucial in transforming Africa's financial landscape, fostering economic growth, and empowering individuals and businesses. This is especially true given the convergence of innovative technologies and a supportive regulatory environment, indicating a promising future for financial inclusion initiatives across the continent.

Against the backdrop of a heightened focus on the increased cost of living, customers are actively seeking good value. The escalation of rates has prompted shifts in customer behaviour across various banking products. In lending, particularly with mortgages, the impact of 'rate shocks' and elevated credit costs has compelled customers to adjust household budgets to accommodate higher repayments. However, due to stricter underwriting standards post the global financial crisis, existing mortgage customers typically possess the capacity to absorb increased costs, resulting in arrears levels not experiencing significant rises.

On savings products, the prevailing higher rate environment has motivated customers to explore term deposit products in pursuit of enhanced yields. This transition, coupled with the amplified cost of living, has led to a decline in volumes for non-interest-bearing current accounts across the market. Simultaneously, customers are depleting account surpluses accumulated during the pandemic.

How it affects us

The potential tightening of global financial conditions poses challenges to business and customer confidence, necessitating adaptive strategies. By prioritising customer-centric approaches, flexible product offerings, and financial inclusion initiatives, we aim to proactively address the multifaceted impacts and ensure our continued growth and adaptability in this dynamic environment.

How we are responding

- Implementing robust risk mitigation and monitoring strategies to navigate potential economic turbulence.
- Strengthening internal controls to mitigate credit risks, address potential interest rate volatility, and enhance cybersecurity measures.
- Working closely with our clients to align their goals with prevailing market dynamics to ensure business continuity.

The future of work

Opportunities are emerging for businesses willing to invest in both mature and emerging markets. Mature markets, characterised by wealth, present opportunities for innovation to counteract shrinking labour forces. Simultaneously, emerging markets seek investment in physical and digital infrastructure to support their substantial and youthful labour forces.

Labour productivity growth, a fundamental driver of economic advancement, experienced a steep rise in 2020 but moderated in 2021. It witnessed a sharp decline in 2022, marking the second-worst contraction in the post-WWII era. Whilst some aspects in the data could be ascribed to a labour market recovery lagging behind real GDP recovery, 2022 posed significant challenges for productivity while 2023 had marked stagnation in productivity prompted by economic challenges and in some regions, persistent labour market shortages. However, a return to productivity growth is projected for 2024 and beyond, with moderate expansion rates exceeding those in the pre-pandemic decade.

[5] GSMA State of the Industry Report on Mobile Money

The human-machine frontier has shifted, with businesses integrating automation into their operations at a more measured pace compared to initial projections. Presently, organisations estimate that 34% of business-related tasks are performed by machines, with the remaining 66% performed by humans. Evident in EY's 2023 Work Reimagined Survey, the emergence of Generation AI (GenAI) is anticipated to exert a substantial impact on the labour market, influencing career paths, and shaping the dynamics of work. As job categories for AI and machine learning specialists are poised for significant growth in the next five years, both employees and employers are proactively establishing expectations and making strategic investments in response to the evolving landscape influenced by these technologies.

How it affects us

Technology tools impact on our workplace as they require new skill sets and growing adaptability to technological shifts. Proficiency in emergent technologies such as Generative AI will be required across the Bank enabling teams to use these tools to deliver value for stakeholders. Keys to ensuring growth over the longer term include developing new lines of business; strengthening corporate culture; embracing digital transformation and automation; recruiting for talent with new skills and maximising the hybrid work model.

How we are responding

- Strengthening our corporate culture to foster innovation, resilience, and adaptability, key elements required in the evolving work landscape.
- Embracing digital transformation and automation to optimise operational efficiency.
- Investing in training programmes to upskill existing employees and ensure they possess the necessary capabilities for future roles.

Outlook

Global

The global real GDP is anticipated to grow by 3.1% in 2024, rising to 3.2% in 2025. The slowdown is attributed to persistent inflation and ongoing monetary policy tightening. Looking ahead, short-term economic growth is expected to remain relatively subdued. Projections for 2024 reveal varying growth rates, with emerging Asian economies demonstrating the strongest forecasts, while Europe and the US exhibit weaker figures.

The Conference Board's 10-year economic projection continues to point to a prolonged period of declining vitality in the global economy. The trajectory of real GDP growth is expected to resume its deceleration, with mature markets making smaller contributions to the global GDP in the coming decade.

Sub Saharan Africa

Growth in Sub-Saharan Africa is expected to stabilise at 4.1% in 2023 and 2024 as inflationary pressures fade and financial conditions ease. Escalating conflict and violence across the region are contributing to a dampening effect on economic activities, further exacerbated by climate shocks. A substantial number of people, approximately 462 million, are still living in extreme poverty in 2023.

The recent poly-crisis—comprising climate-related issues, the COVID-19 pandemic, and escalating conflicts—has accelerated the surge in debt. High debt distress risks persist, with 21 countries identified as either at high risk of external debt distress or already entangled in 2023. Some countries, including Chad, Zambia, and Ghana, have initiated debt restructuring efforts to restore sustainability and rebuild fiscal space.

Economic performance across the continent remains uneven. East Africa is poised to record a growth rate of 5.1% in 2023 and 5.8% in 2024, outpacing all the other African regions. Challenges such as energy and transportation bottlenecks continue to impede economic activities in South Africa, while Nigeria's modest growth is attributed to challenges in its oil sector.

Over the next three decades, the region anticipates the fastest increase in the working-age population globally, projecting a net increase of 740 million people by 2050. However, the creation of formal wage jobs lags behind, with only about 3 million new jobs being generated annually, despite up to 12 million youth entering the labour market each year.

Kenya

The Kenyan shilling is experiencing a rapid depreciation against the US Dollar, marking a 25.7% decline in 2023. This follows previous depreciations of 9% in 2022 and 3.6% in 2021. The primary drivers of this currency depreciation include a persistent and now inflated energy bill, high demand for the dollar from importers, and increased external debt servicing costs, resulting in a decline in forex reserves.

The outlook for Kenya's economy anticipates a growth of 5.5% in 2024. The sources of this growth are expected to be diverse, including robust private sector expansion, strong performance in the services sector, and ongoing recovery in the agriculture sector.

The government's bottom-up economic model, aligned with Kenya's Vision 2030, prioritises key sectors such as agriculture, healthcare, affordable housing, micro and small enterprises, as well as the digital and creative economy. This approach is geared towards transforming Kenya into a competitive and prosperous nation with an enhanced quality of life.

Legal and regulatory review

Foreign exchange (FX)

FX Code

The Central Bank of Kenya (CBK) issued the Kenya FX Code in March 2023 as a code of conduct for the foreign exchange market. The Kenya FX Code is adopted from the Global FX Code and sets out ethical standards for commercial banks with the aim of strengthening and promoting integrity and effective functioning of the wholesale foreign exchange (FX) market in Kenya. It facilitates better functioning of the market, reinforcing Kenya's flexible exchange rate regime for greater resilience of the economy.

The FX Code focuses on six leading principles to be adhered to by banks:

i. **Ethics:** Ethical and professional behaviour when operating in the FX market.

ii. **Governance:** Implementation of a sound and effective governance framework to oversee FX market activity.

iii. **Execution:** Exercising due care when negotiating and executing transactions.

iv. **Information Sharin**g: Clarity and accuracy in communication.

v. **Risk management and compliance:** Development and maintenance of a robust control and compliance framework.

vi. **Confirmation and Settlement Processes:** Ensuring predictable, smooth, and timely settlement of FX transactions.

Banks were required to undertake a self-assessment and submit the report to CBK by 30th April 2023, submit a board approved implementation plan by 30th June 2023 and ensure full implementation by 31 December 2023.

Absa Bank Kenya achieved full compliance by the set deadline.

CBK Banking Circular No 7 of 2023

Change to operations in the interbank foreign exchange market

This circular introduced the following changes:

(a) **Limit on swap tenors**: the tenor of swaps involving non-residents has been reduced from not less than 12 months to not less than 6 months. No limit on tenor swaps involving residents and EAC residents are considered as residents and will benefit from the no tenor restriction.

(b) **Electronic brokerage:** Use of electronic brokerage systems is now permitted.

(c) **Minimum traded amount:** The minimum amount to be traded on interbank reduced from USD 500,000 to USD 250,000. These changes are efforts to improve FX liquidity and participation in the interbank.

Financial crime

Absa continued the approach of managing its financial crime risk across customer segments, channels, and products within the business. Additionally, Absa closely monitored the products and services to ensure that they were exploited for criminal activity, including fraud, bribery and corruption, tax evasion, sanctions, money laundering, terrorist financing and proliferation financing.

Regulatory developments within the financial crime space

National Risk Assessment and Mutual Evaluation Report (MER)

Following the completion of the national risk assessment in 2021, a Mutual Evaluation exercise was concluded in September 2022, whereby various government agencies collaborated with the Central Bank of Kenya (CBK) and the Financial Reporting Centre (FRC) and other stakeholders.

The MER exercise recommended several actions which included a revision and amendments of the Anti-Money Laundering and Combating of Terrorism and Proliferation Financing Laws (Amendment) Act 2023.

The Act had the following amendments:

i. The introduction of an increased cash transactions reporting threshold from USD 10,000 or equivalent in any other currency to USD 15,000 or equivalent in any other currency.

ii. The amendments have removed the suspicious transaction reporting from 7 days from date of transaction/alert and replaced it with a reporting timing of 2 days calculated from when the suspicion arose.

iii. Additional amendments related to the Companies Act (No. 17 of 2015) in relation to the Beneficial Ownership requirements for reporting institutions.

In light, of these amendments and their profound impact, Absa will continue providing oversight and strengthening our financial crime control regime to ensure proactive management by the business; as well as utilising technology and intelligence to mitigate financial crime risks given the dynamic and increasingly complex regulatory landscape.

Government securities and innovation

CBK Banking Circular No 6 of 2023

Following the launch of the new system Dhow CSD, CBK reduced the haircut on government securities. The implication of this reduction is that banks seeking liquidity support from the Central Bank will provide less security in the form of government securities to CBK and therefore have more funds available to them. The applicable haircut for treasury bills and bonds less than one year was reduced from 10% to 2%, for bonds maturing after one year but than 10 years the haircut was reduced from 10% to 2% and for bonds maturing after 10 years the haircut was reduced from 20% to 10%.

DhowCSD

The CBK implemented the DhowCSD on July 31, 2023. It is an upgraded Central Securities Depository infrastructure which will greatly enhance efficiency in investment in government securities. The system has enabled an 'anywhere anytime' investment in treasury bills and treasury bonds, a development that will greatly benefit all investors, and particularly the Kenyan Diaspora. DhowCSD will also improve the functioning of the interbank market by facilitating collateralised lending amongst commercial banks and further reduce segmentation in the interbank market.

CBK Banking Circular No 16 of 2023,

In an effort to further enhance the efficiency and smooth operation of the FX market, CBK, through CBK Banking Circular No 16 of 2023, announced the implementation of electronic trading in the interbank foreign exchange market via Electronic Matching Systems (EMS). Absa is one of the banks appointed by CBK to be a market maker in creating an efficient market clearing exchange rate. Firm tradeable prices are now available via EMS and through this circular, CBK also withdrew Banking Circular No 10 of 2015 which set the maximum spread between indicative two-way quotes set at Kes 20 cents . Market participants can now buy and sell FX with their clients and among themselves at freely negotiated rates and are required to adjust their quotes as necessary for prudent management of their FX risk within prudential limits.

New Capital Markets Authority (CMA) regulations

CMA gazetted the Capital Markets (Public Offers, Listings and Disclosures) Regulations, 2023 in October to repeal the Capital Markets (Securities) (Public Offers, Listings and Disclosures) Regulations issued in 2002. The regulations come after CMA received feedback from various market players on the need to update the 2002 regulations This is an effort by CMA to simplify the listing process with the aim of increasing the number of listings on the Nairobi Securities Exchange. The new regulations come at a time when Absa has launched its investment banking business as we seek to increase our fee income on advisory fees for various types of transactions.

CMA gazetted The Capital Markets (Collective Investment Schemes) Regulations, 2023 in October 2023 to repeal The Capital Markets (Collective Investment Schemes) Regulations issued in 2001. The evolution of the regulations seeks to ensure they are responsive to market developments and investor needs. One of the Bank's subsidiaries, Absa Asset Management Limited is an issuer of a Collective Investment Scheme, the "Absa Unit Trust Funds".

Tax

The Finance Act, 2023 introduced significant tax changes impacting the Bank, colleagues, and customers either directly or indirectly. The tax changes impacting the Bank directly have been implemented and include among others:

i. Excise Duty on money transfer services has been reduced from 20% to 15%. This is a welcome move aimed at reducing the cost of transacting and doing business.

ii. Introduction of additional employment taxes including Affordable Housing Levy of 1.5% of gross salary, with the employer matching the contribution and new tax rates for high income earners at 32.5% for income above Shs 500,000 and below Shs 800,000 and 35% for income above Shs 800,000.

iii. The frequency of remittance of Agency Taxes collected by the Bank on behalf of the government increased from once a month to after every 5 working days.

iv. Increased Value Added Tax (VAT) rate on petroleum products from 8% to 16%. This has significantly increased the cost of goods and services.

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, 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

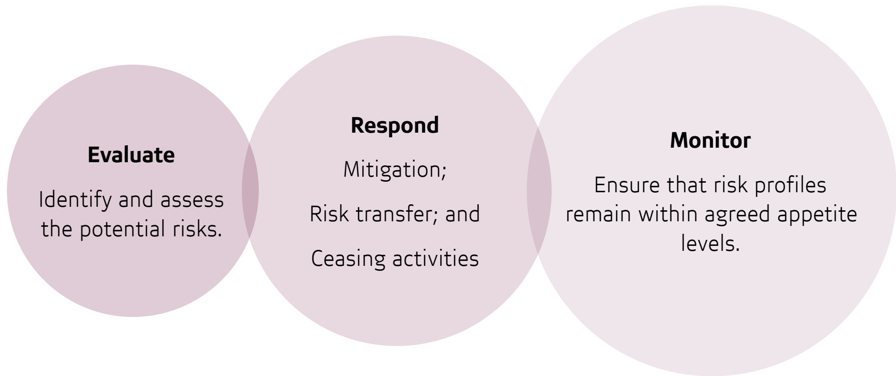
The Bank's operating environment is expected to continue being challenging. Risk, liquidity and capital management will remain a priority, including:

- 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.

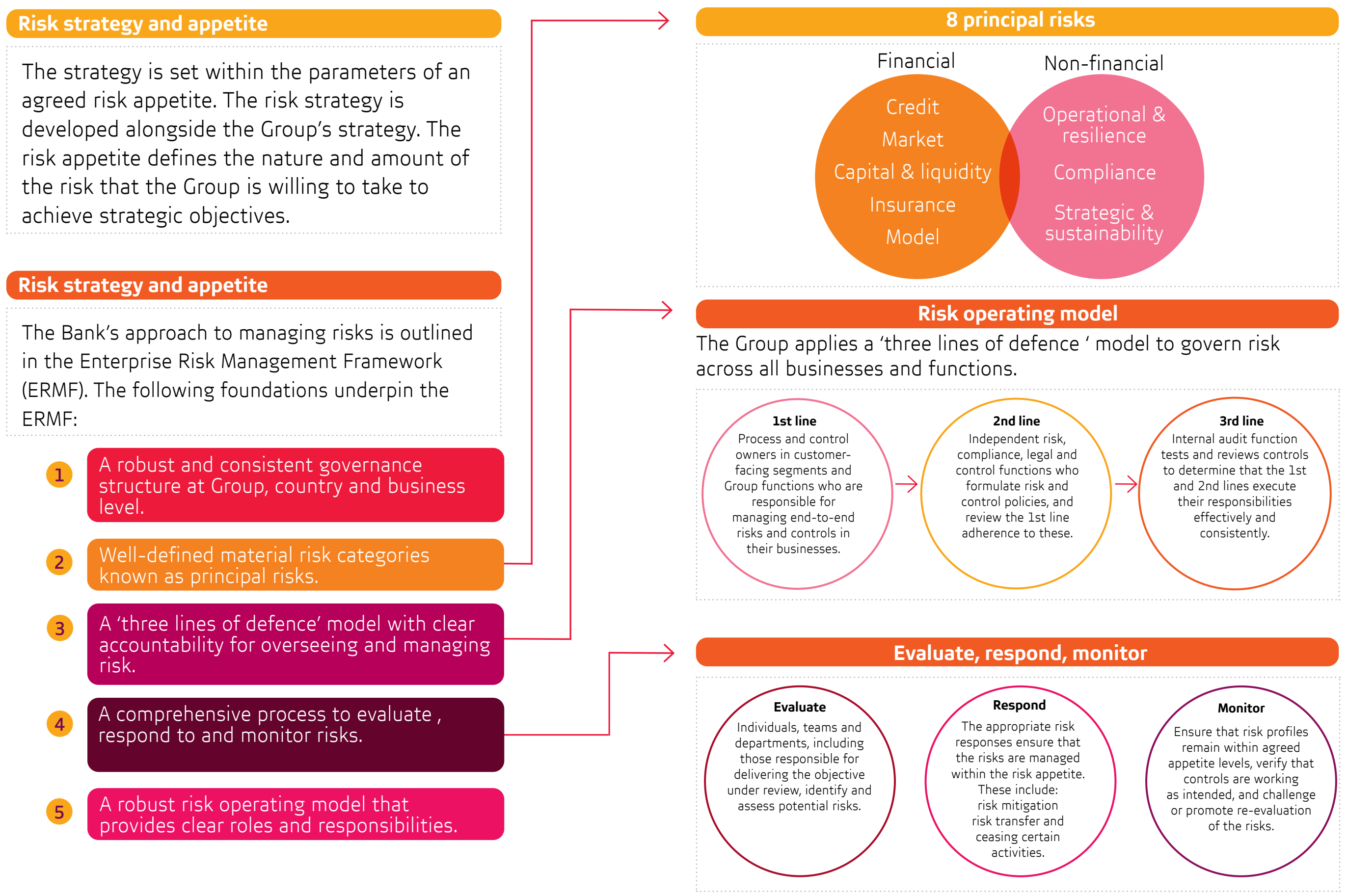
The ERMF sets the strategic approach for risk management by defining objectives, standards and responsibilities for all areas of the Bank. It is then approved by the Bank's Board on recommendation of the Chief Risk Officer. It supports senior management in effective risk management and developing a strong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

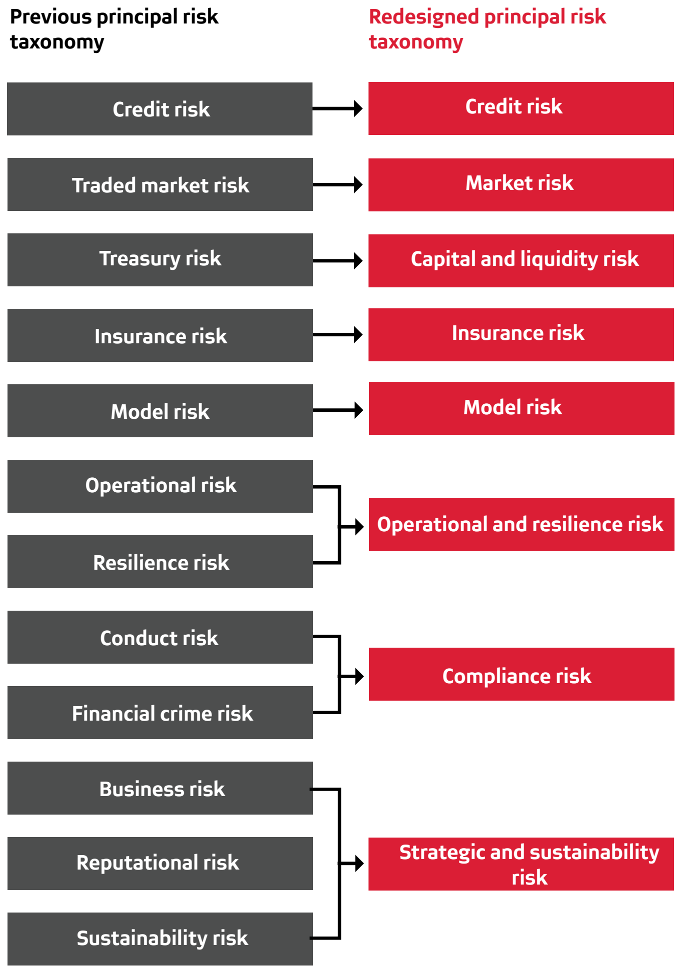
The ERMF identifies 8 principal risks and sets out associated responsibilities and expectations around risk management standards.



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.



Key changes implications

	Regulatory compliant: All relevant risks required by the Banking Act and ICAAP are covered under the new taxonomy.
	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 2023, 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

Current and emerging risk	Management response
Interest rate risk increased as the Central Bank of Kenya raised the policy rate three times since May 2022 to reach 8.75% in response to inflationary pressure	• Enhancing risk governance and oversight frameworks, including the identification, measurement, monitoring, and mitigation of emerging risks. • Strengthening capital and liquidity positions, diversifying funding sources, and maintaining adequate loan loss reserves.
Credit risk rose as the economic growth slowed down and the corporate debt market became more vulnerable to defaults and downgrades	• Enhancing risk governance and oversight frameworks, including the identification, measurement, monitoring, and mitigation of emerging risks. • Strengthening capital and liquidity positions, diversifying funding sources, and maintaining adequate loan loss reserves. • Improving their underwriting standards, credit risk management, and loan portfolio diversification.
Liquidity risk was heightened by the deposit outflows and funding pressures	• Enhancing risk governance and oversight frameworks, including the identification, measurement, monitoring, and mitigation of emerging risks. • Strengthening capital and liquidity positions, diversifying funding sources, and maintaining adequate loan loss reserves.
Compliance risk was driven by the evolving regulatory and supervisory expectations, especially in the areas of fair lending, small business lending, BSA/AML, and consumer protection	• Strengthening capital and liquidity positions, diversifying funding sources, and maintaining adequate loan loss reserves. • Updating their compliance policies and procedures, investing in compliance technology and training, and engaging with regulators and examiners
Operational risk was amplified by the growing reliance on technology and third-party service providers	• Enhancing risk governance and oversight frameworks, including the identification, measurement, monitoring, and mitigation of emerging risks. • Implementing robust operational resilience and business continuity plans, enhancing their cybersecurity defenses and incident response capabilities, and managing their third-party relationships.
Climate-related financial risk posed long-term challenges for banks, as the physical and transition risks of climate change affected their assets, liabilities, and operations	• Strengthening capital and liquidity positions, diversifying funding sources, and maintaining adequate loan loss reserves. • Partnering with development partners to unlock climate finance and support green and sustainable banking initiatives.

About this report | Our bank | **Our strategy** | Our performance
Governance | Financial review | Shareholder information

Stakeholders

Our business model depends on resources and relationships to access the capitals that we utilise to drive our strategy, operate our business and create and preserve value. We manage these relationships diligently so as to meet the needs and expectations of our stakeholders.

Employees

Who they are
- 2 130 employees
- 51% women and 49% men

Needs and expectations
- Understanding of the eKhaya colleague shares proposition
- Concern about the impact of increased deductions due to the Finance Act, 2023
- Workplace wellbeing including holistic wellness
- Fair remuneration and terms of employment
- Objective performance management and recognition
- Equitable treatment and opportunities
- Skills development including future skills
- Systems and service stability ensuring service delivery
- Supportive hybrid work policies and practices
- Enabling customers to transact seamlessly
- Enhanced and improved features and capabilities on digital channels
- Colleagues-first approach

Strategic response/value proposition
We create an environment where employees can fulfil their potential and deliver with excellence for our fellow colleagues and 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
- Supporting different ways of work
- Investing in technology to ease hybrid work and value creation for customers

Metrics to measure performance
- Participation rate – 88%
- Colleague experience index - 75.3%
- Job satisfaction – 8.02
- Employer advocacy - +49.6%
- Diversity, Equity and Inclusion
- Training spend

Relevant material matters
- Meaningful work

Capitals impacted

Quality of relationship
Employee experience score for 2023 was 75.3% (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 resources 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
- Timely updates from the bank and reasonable feedback on their concerns

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

- CX index (performance and satisfaction) – 105% (RB)
- CX index (performance and satisfaction) – 104% (BB)

Relevant material matters

- Protecting customers
- Technology
- Business in society

Capitals impacted

Quality of relationship

Treating customers fairly score 90% (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.
- Constant and timely updates on business performance

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.

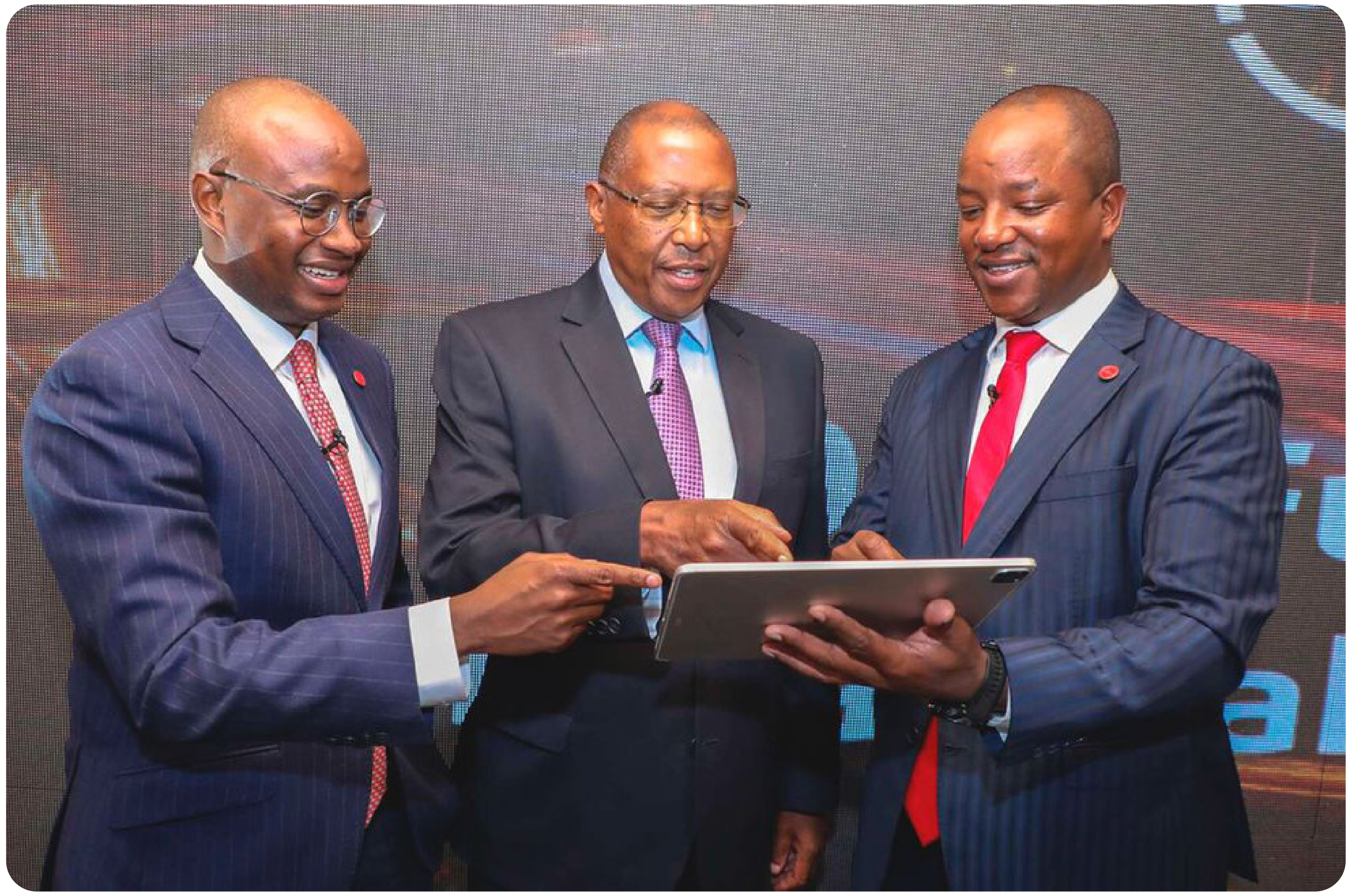
Metrics to measure performance

- Shs 16.4bn headline earnings
- 42% cost to income ratio
- 1.55 dividend declared

Relevant material matters

- Geopolitical issues
- Regulation
- Business in society

Capitals impacted



Regulators

Who they are
- Central Bank of Kenya
- 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
- Kenya Deposit Insurance Corporation

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 (18.1%): regulatory limit (14.5%)
- Liquidity reserve position (31.1%): regulatory limit (20%)
- Employees trained on fraud and ethical conduct
- Nil fines or penalties
- Full compliance with 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 150 million spend on citizenship programmes
- Shs 4.5 billion spend on local procurement
- 252 014 youth trained under ReadytoWork
- 728 095 trees planted
- 299 116 women entrepreneurs impacted through SHE proposition
- 65 schools supported in development of computer labs

Relevant material matters
- Business in society
- Geo-political issues

Capitals impacted

Planet

Who they are

The natural resources on which we, our stakeholders and future generations depend.

Needs and expectations

- 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

- 8.3% reduction in energy consumption
- Carbon footprint 4 066 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. **2022: Shs 10.9bn** **2021: Shs 9.2bn**	**2023** **Shs 11.7bn**
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). **2022: Shs 7.3bn** **2021: Shs 6bn**	**2023** **Shs 8.4bn**
Payments to government All of the organisation's corporate taxes plus related penalties paid at the international, national and local levels. **2022: Shs 6.1bn** **2021: Shs 4.7bn**	**2023** **Shs 16.2bn**
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. **2022: Shs 150m** **2021: Shs 200m**	**2023** **Shs 150m**
Total capital financing Total loans disbursed to businesses, individuals, government parastatals, agencies, NGOs, groups, including digital platforms. **2022: Shs 283.6bn** **2021: Shs 234.2bn**	**2023** **Shs 335.7bn**
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. **2022: Shs 60m** **2021: Shs 300m**	**2023** **Shs 26.9bn**
Local procurement Purchase of goods and services from domestic suppliers. **2022: Shs 3.7bn**	**2023** **Shs 4.5bn**

Particulars of shareholding

Absa Bank Kenya PLC			
Top 30 shareholders as at December 2023			
Name	**Domicile**	**Total Shares**	**%**
ABSA GROUP LIMITED	FC	3,720,816,000	68.50%
STANDARD CHARTERED KENYA NOMINEES LTD A/C KE004667	FC	110,741,311	2.04%
PATEL,BALOOBHAI;PATEL,AMARJEET BALOOBHAI	LI	55,862,120	1.03%
Sub-total (Top 3)		**3,887,419,431**	**71.57%**
KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915B KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915B	LC	41,863,390	0.77%
STANDARD CHARTERED NOMINEES RESD A/C KE11450	LC	37,857,590	0.70%
STANDARD CHARTERED NOMINEES RESD A/C KE11401	LC	24,935,156	0.46%
STANDARD CHARTERED NOMINEES RESD A/C KE11436	LC	23,368,656	0.43%
STANDARD CHARTERED NOMINEES RESD A/C KE11443	LC	21,952,300	0.40%
STANBIC NOMINEES LIMITED R6631578	LC	14,594,900	0.27%
KARIUKI,PATRICK NJOGU	LI	13,963,200	0.26%
Sub-total (Top 10)		**4,065,954,623**	**74.86%**
EQUITY NOMINEES LIMITED A/C 00070	LC	13,709,212	0.25%
KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 1065B	LC	13,119,020	0.24%
KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 1019A	LC	12,313,400	0.23%
ORANG'O,BARNEY DANIEL	LI	12,041,720	0.22%
STANDARD CHARTERED NOMINEES A/C 9187	LC	11,246,088	0.21%
JUBILEE LIFE INSURANCE LIMITED	LC	10,768,684	0.20%
STANDARD CHARTERED KENYA NOMINEES LTD A/C KE002315	LC	9,425,000	0.17%
EQUITY NOMINEES LIMITED A/C 00099	LC	9,082,000	0.17%
KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 744C	LC	8,179,453	0.15%
MBILU, ELIUD SIMON	LI	8,068,000	0.15%
Kestrel Capital Nominee Services Limited A/C 12	LC	8,000,000	0.15%
STANDARD CHARTERED NOMINEES A/C 9360	LC	7,961,148	0.15%
STANDARD CHARTERD NOMINEES A/C KE10881	LC	6,912,740	0.13%
STANDARD CHARTERED NOMINEES A/C 1715	LC	6,707,240	0.12%
JUBILEE HEALTH INSURANCE LIMITED	LC	6,601,080	0.12%
WESTLANDS TRIANGLE PROPERTIES LIMITED	LC	5,927,700	0.11%
STANBIC NOMINEES LIMITED A/C R4763135	LC	5,784,780	0.11%
NIC CUSTODIAL SERVICES A/C 213	LC	5,623,925	0.10%
STANDARD CHARTERED KENYA NOMINEES LTD,A/C KE19012	LC	5,569,200	0.10%
KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 744F	LC	5,546,854	0.10%
SHARES SELECTED		-	0.00%
OTHER SHAREHOLDERS		5,431,536,000	100.00%
SHARES ISSUED		5,431,536,000	100%

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, new crisis including the Israel-Gaza conflict, 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

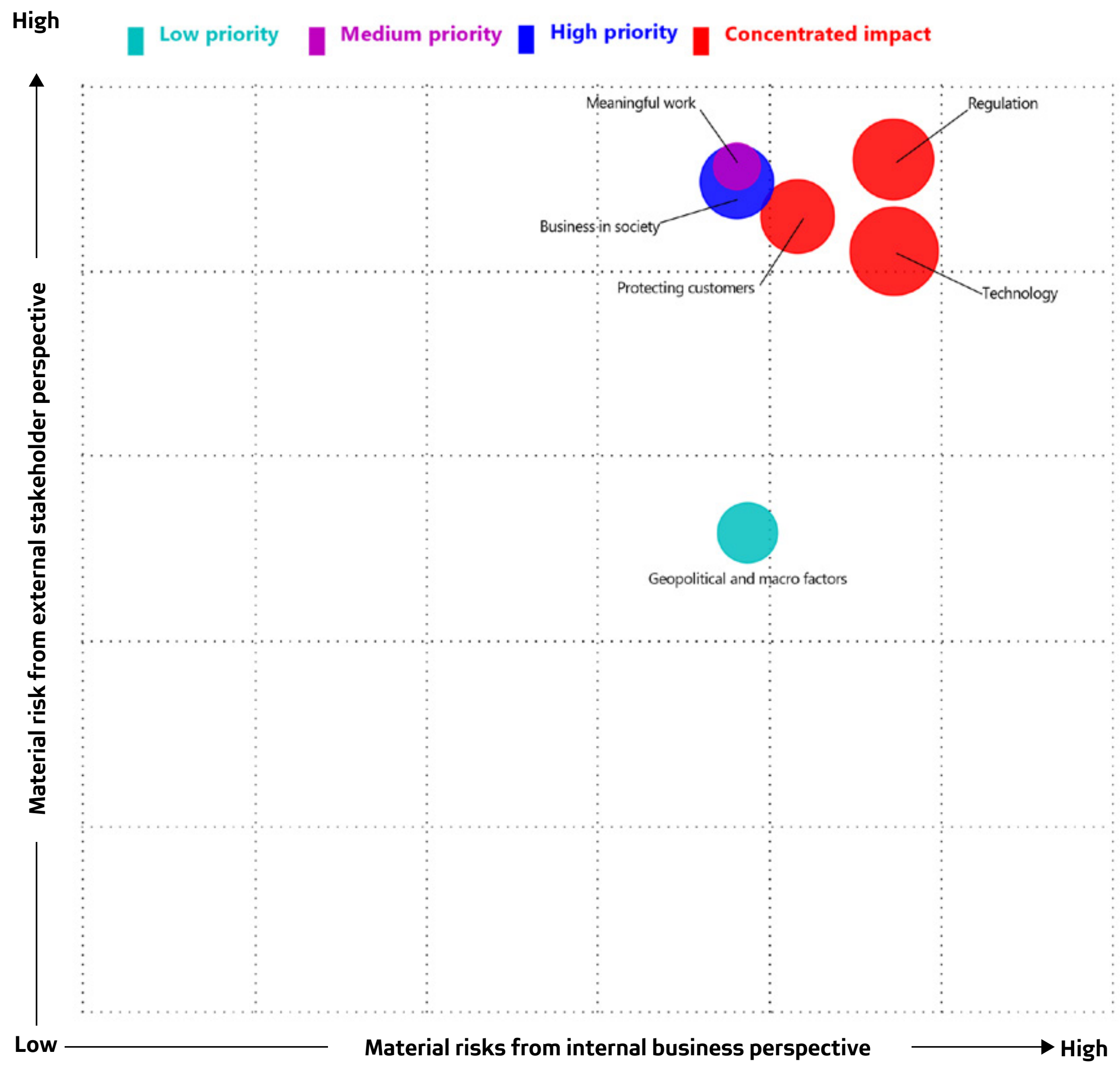
Fraud and cyber-insecurity remain potent challenges for financial institutions, exacerbated by social engineering challenges and ever-shifting fraud trends requiring increased vigilance and responsiveness. Increased engagement with customers is an important necessity to ensure we remain relevant and 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.



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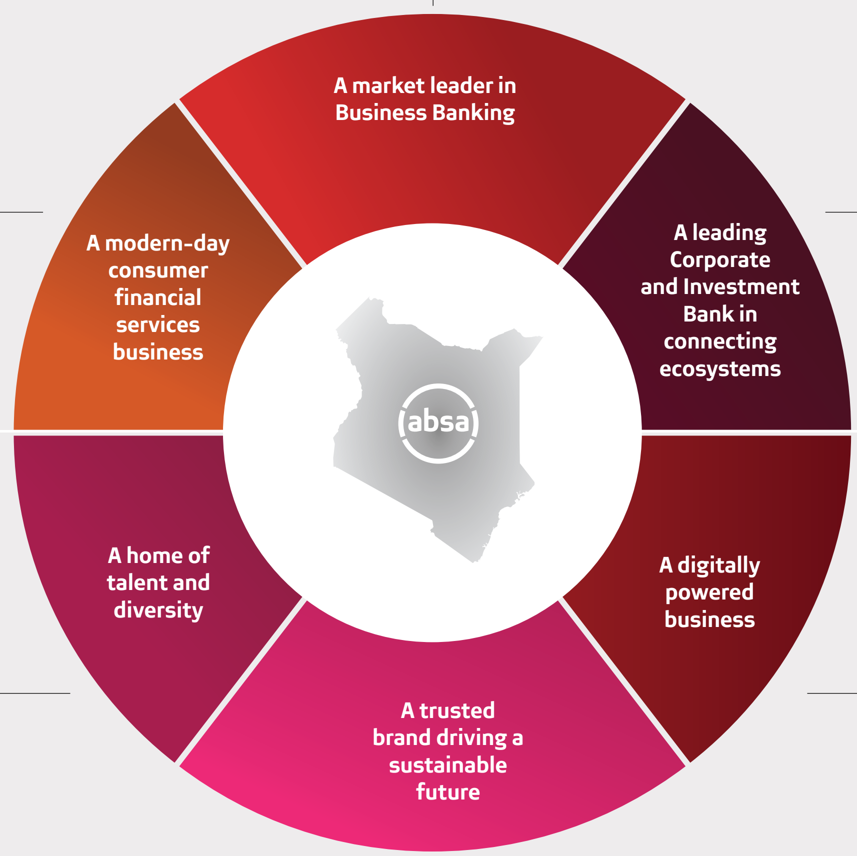
The strategy for 2023 and beyond is founded on three priorities and three enablers

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.

Strategy Execution Overview

To realise our vision, our Group strategy outlines objectives to guide our execution and measure performance in the long-term while being adaptive to our operating environment in the short-term to outperform our objectives. In 2023, we focussed on three areas being cognisant of the complex and dynamic operating environment. First focal point was momentum of our business to ensure we were building on growth achieved in our previous strategic horizon. Secondly, we were prudent in managing the business through complex environment with strategy trade-offs on growth while cushioning our business within the confines of our risk framework. Thirdly, we focused on readying for the next phase of transformation by putting in place significant investments across all our priority areas.

Absa believes that being a purpose-led organisation 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. Towards this, we have embedded our purpose of "empowering Africa's tomorrow, together … one story at a time", as the cornerstone of our strategy. Our strategy is premised on delivering 'outperformance' through the cycles anchored on: Modernising our consumer business, expanding reach in Retail and Business Bank and driving primacy in Corporate and Investment Banking across the region.

Our Three Strategic Priorities Guide our Desired Strategic State

Three Strategic Priorities	...Strategic Context	...Strategic Response	...Measure of Success	...Outcomes
1 A Modern-Day Consumer Financial Services Business	Kenya has c.40mn people accessing financial services, with the consumer segment remaining the most attractive (and profitable) revenue pool for players willing to drive scale through mobile-first and mobile-only	We will aim to strongly grow and diversify our conventional retail business while evolving Timiza into a standalone mobile only financial services business	A Robust Retail Expansion Strategy to Scale our Business	1. 16% growth in revenue and double-digit balance sheet growth 2. 5x growth in agency outlets to 3,000 3. 28% growth in Timiza active customers and 36% increase in value of disbursed loans
2 A Market Leader in Business Banking	The SME segment presents a market opportunity of over 7 million and supports more than 40% of GDP and 80% of employment. This segment remains cyclical but resilient through varied economic periods	We will aim to expand our product offering (and adjust our risk appetite in-line with economic cycles) for growth, supported by expanding both physical and digital distribution power	Partner of Choice for SMEs	1. 23% growth in revenue and double-digit balance sheet growth 2. Innovation in channels such as MobiTap a first in the market point of sale solution and proposition such as wezesha stock
3 A powerhouse Corporate & Investment Bank in Connecting Ecosystems	As the global & multinational business case diminishes, a greater opportunity emerges in local and local-adjacent markets, where those who win will have to offer more than balance sheet to Corporate Clients	We will aim to regionalize our Corporate and Investment Banking approach, while investing towards helping our clients serve their ecosystems seamlessly. At the strategic level, we will seek to take our clients into new horizons through advisory	A regional powerhouse in corporate and investment banking driving primacy	1. 19% growth in revenue and double-digit balance sheet growth 2. 200% increase in enterprise supply development 3. Custody Business and China desk propositions

Our Three Enablers Guide our Investment Approach

Three Strategic Enablers	...Strategic Context	...Strategic Response	...Measure of Success	...Outcomes
1 A digitally Powered Business	The 4IR[1] will create natural winners and losers in financial services, yet those who win will retain open preferences for customers at the front-end, while fully automating the back-end and applying advanced technologies for safety	We will aim to modernize our core technology chassis, while executing a digital transformation program to support a two-speed model for our business. We will do this while opportunistically expanding our physical distribution format	A digital leader	1. 99% system uptime 2. 40% digital active customers 3. 62% in process digitization and automation
2 A Trusted Brand Driving a Sustainable Future	Sustainability has become the modern center-bolt for brands, influencing their long-term strategic choices as well as immediate actions. Looming crises such as climate change have served to deepen emphasis on sustainability practices. Organizations have thus shifted their practices to generate value to shareholders while concurrently seeking to positively impact the people, communities, and surrounding environments	We will aim to build an always-on omnipresent brand that drives a sustainable future by 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	The most loved and trusted financial services brand	1. Number 1 most trusted financial services brand 2. 41% in prompted consideration 3. 18% in inclusive finance 4. 1.031 trees planted 5. 252,041 Youth trained 6. 15,939 women led in business
3 A Home of Talent & Diversity	While financial services remains a people business the advent of COVID-19 and emergence of NextGen's shifted the workforce, the workplace and the dynamic of work	We will aim to build a diverse workforce a hybrid workplace, and dynamic formats of work, in a way that attracts the very best and talent, that also mirrors the market we serve. This is because it takes diverse talent to win and our people are our strength	Employer of choice supported by a vibrant culture	1. 75.3% in Employee engagement 2. 33% in top leadership gender diversity

Notes
1. Fourth Industrial Revolution

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Strategic trade-offs and impacts on our capitals

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 replacing platforms vs digital innovation, modernisation and simplification.

We are continually digitising the core by optimising processes, boosting efficiency, and ensuring seamless customer experiences across all interaction points. We have to decide between allocating our finite resources to urgent, operational matters including digital innovation and the need to deliver at pace with the requirement to maintain business continuity in our core banking technology.

Capitals impacted

Trade-off between being a country and a regional corporate and investment bank.

We optimise our operating model towards customer centricity and opportunities, we choose to be a regional corporate and investment bank to better serve our clients ecosystems and capture wider trade flows in regional economy.

Capitals impacted

Trade-off between external talent acquisition and building workforce of the future.

We have opted to significantly equip colleagues with skills of the future versus attracting external talent in light of significant up-front investments. We choose to develop Absa-grown talent for increasingly scarce skills in areas such as data science and design thinking.

Capitals impacted

The trade-offs we make: Socio-economic versus environmental support.

Our ESG priorities and their underlying trade-offs have been determined based on their impact on our stakeholders, potential risks and opportunities, and our ability to make a difference. We drive socio-economic development in the markets in which we operate in whilst assessing the impact our actions, and those of our stakeholders, have on the environment. The complex relationship between environmental and social priorities will continue to be managed to best support a just transition.

Capitals impacted

Resource allocation

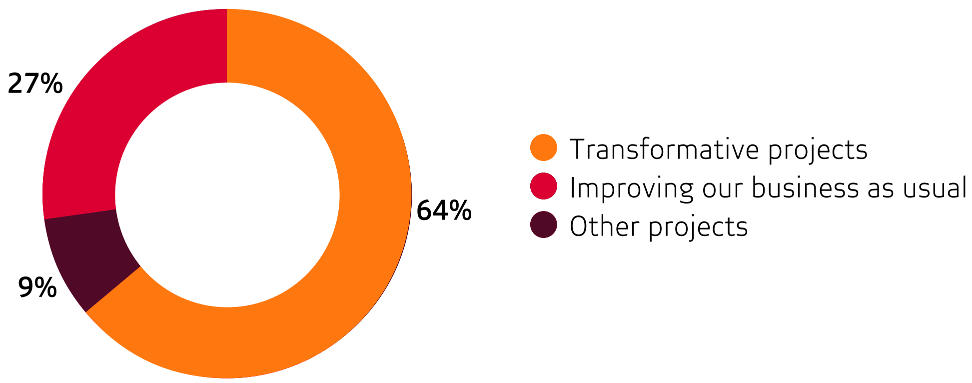
To achieve our strategy, we have allocated resources predominantly for transformative projects that will enhance our enablers around technology, people and brand. We have a dynamic approach to investments and evaluate every prospective deployment of capital in terms of our strategy, taking into consideration 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 2024, our capital allocation to transformative projects and investments in supporting the business, in line with our strategic intent, will be as follows:



Our performance

Reflections from the Chief Financial Officer

Yusuf Omari
Chief Financial Officer

> "Despite the tough and uncertain operating environment, our business has demonstrated resilience, agility, and an unwavering commitment in supporting our customers"

Looking back, the operating environment has been tough with headwinds in the macroeconomic environment including inflation, currency depreciation and lingering disruptions in trade impacting our customers, businesses and the country at large.

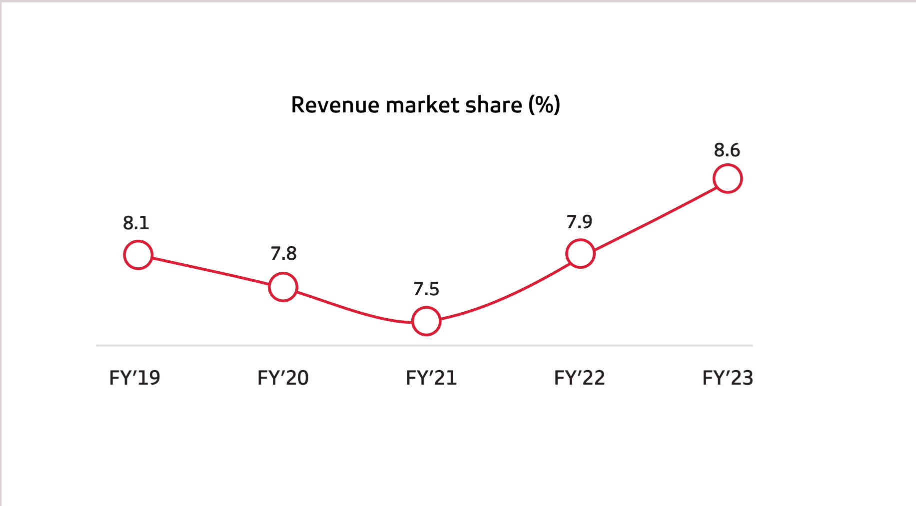
Despite the tough and uncertain operating environment, our business has demonstrated resilience, agility, and an unwavering commitment in supporting our customers. Our financial performance not only weathered the storms but emerged stronger, underscoring the effectiveness of our strategic planning and execution.

In 2023, we remained focused on executing our strategy to maintain momentum and transform our operations leveraging on digital transformation. We are making important strides by investing ahead in technology as a foundation for long term growth while optimising our business for cost-efficiency. We also continued to invest in our people as well as in the communities in which we operate.

Performance Highlights

We managed to prudently protect our momentum towards achieving our desired principal financial obligations, highlighted below:

1) Revenue growth ahead of market

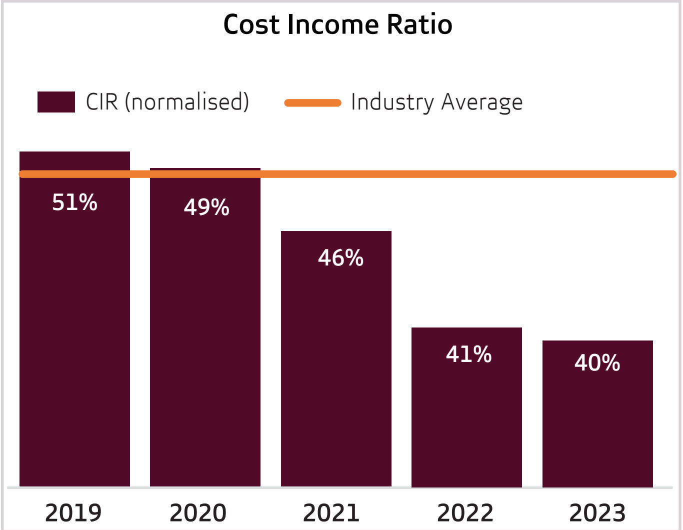


The Bank witnessed robust revenue growth of 18%, with our revenue sources remaining well diversified across business segments and product lines. Our Net interest income (NII) accounts for 75% while non-funded income (NFI) account for 25% of total revenue.

NII increased by 24% to Shs 40 billion driven by improved yields due to repricing of loan book in line with the operating environment coupled with the loan book growth of 18%. However, this was offset by increased cost of funding due to high interest rates on the funding lines combined with growth in customer deposits to fund the asset momentum.

NFI expanded by 5% driven by growth in fees and commissions anchored on strong performance of our auxiliary businesses but was offset by significant mark to market trading losses on bonds due to high interest rates.

2) Improved Efficiency (Cost-to-Income Ratio)

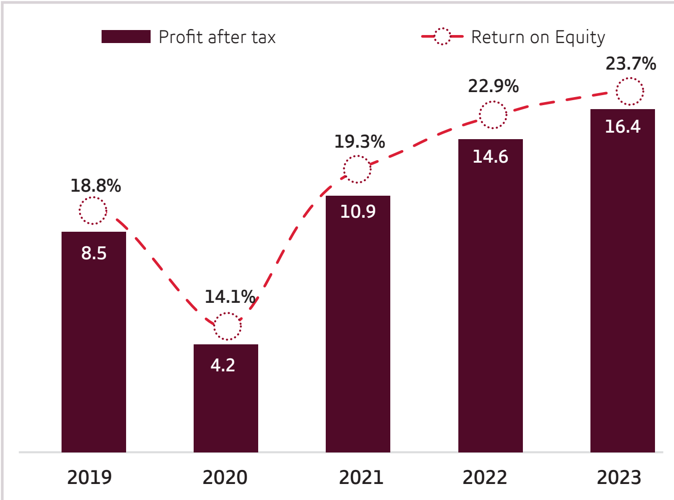


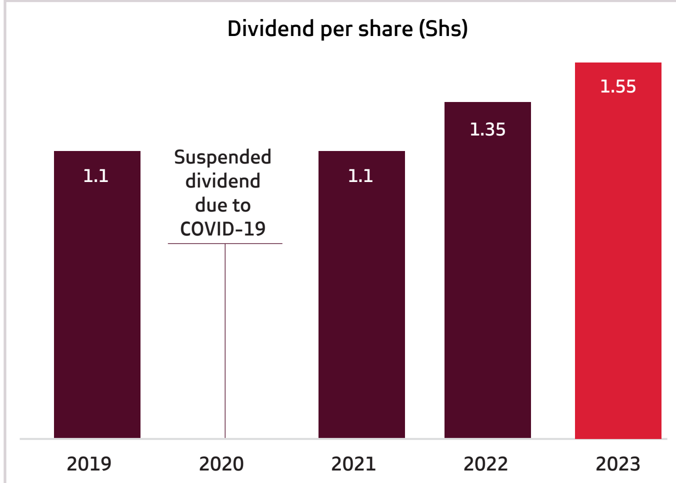
The Bank total costs closed at Shs 21.6 billion which represent a 16% growth, despite high inflation and currency depreciation impacting on our foreign denominated costs. While our efficiency improved from prior year to close at 40%.

This performance is because of our efforts on diligent cost management initiatives and improved operational efficiencies. Top of these initiatives are lower variable costs because of the automation of our processing centres, investment in alternate channels.

Our efficiency levels are within our strategic ambitions of mid 40's.

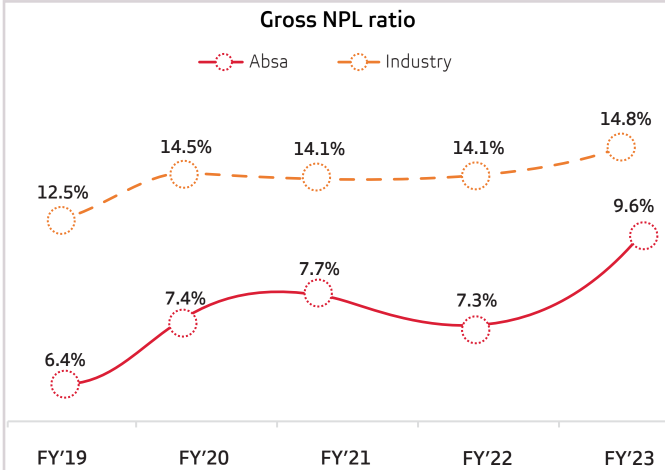
3) Sustained growth in shareholders returns





Our returns have improved anchored on business momentum and aligned to our commitments on shareholder returns.

4) Credit Quality



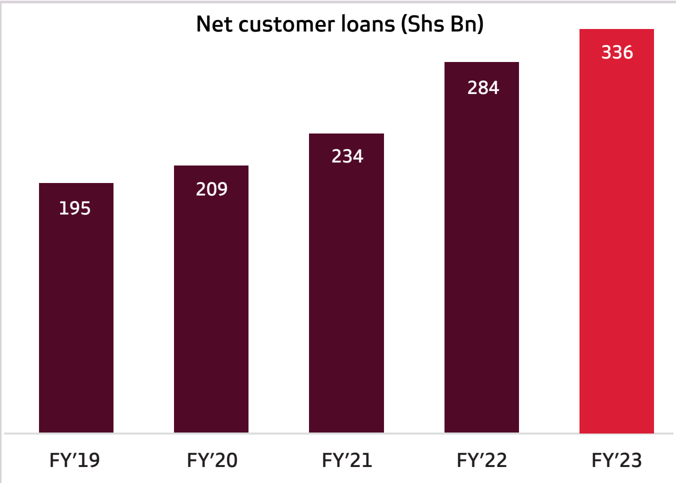
Impairment recorded an increase of 44% from Shs 5.8 billion in 2022 to Shs 8.4 billion due to increased credit risk occasioned by the tough operating environment for our customers which has seen our Gross NPLs surge year-on-year.

Gross Non-performing loans (NPLs) at 9.6% was better than the industry average at 14.8%. Despite the growth in our NPLs and double-digit growth in loan book, our portfolio quality was impacted marginally aligned to the operating environment.

We continue to mitigate impairment growth by enhancing our underwriting standards and creating internal efficiencies on the collections and recoveries fronts.

5) Sustained Balance sheet momentum

Loan book Momentum

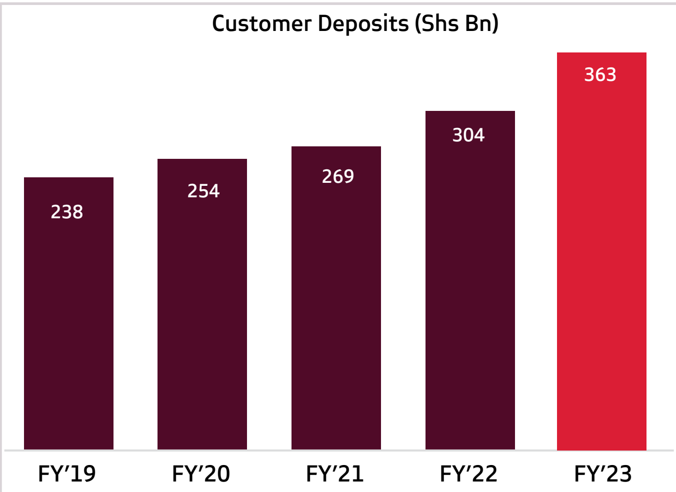


The Bank reported 18% growth in loans to close at Shs 336 billion with year-on-year growth across all business segments.

Our key focus products namely general lending, personal loans, mortgages and overdraft recorded good traction with respectable year-on-year growth. The growth in loans was mainly driven by increased lending across board in the year in line with our strategy.

Key activities on building the asset book included strategic partnerships and leveraging on ecosystem banking to reach the wider customer population as we continue to support customers on financial needs.

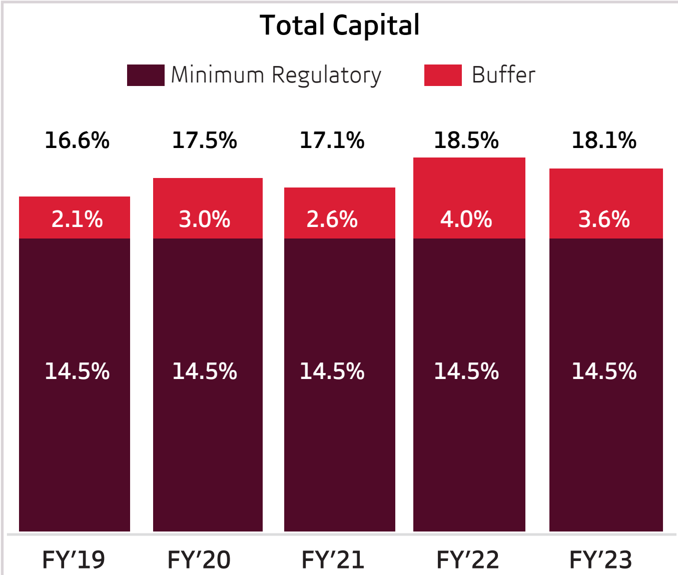
Double digit deposit growth



Customer deposits grew by 19% boosted by growth in term deposit. Our cost of deposits increased by 110bps given the prevailing market conditions and increase in interest rates. Interest expenses increased to Shs 14.2 billion from Shs 8.5 billion in 2022 with growth recorded across all business segments. with growth recorded across all business segments.

6) We have adequate capital buffers to support our strategic ambitions.

Our capital and liquidity ratios remain very strong showing sufficient headroom above the regulatory requirements. Our total capital adequacy ratio is at 18.1% and liquidity reserve position at 31.1% against the regulatory limits of 14.5% and 20%, respectively.



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7) Five-year review

Income statement analysis

Shs 'Millions	2019	2020	2021	2022	2023	Change (%)
Net interest income	23 179	23 381	25 257	32 315	40,044	24
Non-interest revenue	10 588	10 700	11 043	13 018	13,659	5
Total revenue	**33 767**	**34 081**	**36 300**	**45 333**	**53,703**	**18**
Operating expenses	(17 285)	(16 647)	(16 664)	(18 660)	(21,651)	16
Pre-provision profit	**16 482**	**17 434**	**19 636**	**26 673**	**32,052**	**20**
Impairment on loans and advances	(4 201)	(8 585)	(4 087)	(5 824)	(8,374)	44
Profit before tax	**12 281**	**8 849**	**15 549**	**20 849**	**23,678**	**14**
Exceptional items	(1 529)	(3 202)	-	-	-	-
Profit after exceptional items	10 752	5 647	15 549	20 849	23,678	14
Income tax expense	(3 296)	(1,484)	(4 679)	(6 262)	(7,311)	17
Profit after taxation	7 456	4 163	10 870	14 587	16,367	12
Normalised profit after tax	8 516	6 524	10 870	14 587	16,367	12

Sustained balance sheet momentum

Shs 'Millions	2019	2020	2021	2022	2023	Change (%)
Total assets	374 904	379 441	428 722	477 234	504,836	6
Net loans and advances to customers	194 895	208 855	234 234	283 579	335,714	18
Liabilities	329 715	332 936	372 274	413 621	435,639	5
Deposits due to customers	237 739	253 630	268 717	303 751	362,749	19
Total equity	45 189	46 505	56 448	63 613	69,194	9
Total equity and liabilities	374 904	379 441	428 722	477 234	504,833	6
Net advances to deposits (%)	82	82	87	93	93	

Looking forward

The Bank remains in a position of strength as evidenced in our 2023 results. Our strategy remains rooted in prudence, transformation and sustainability. We will continue to invest strategically, leveraging on emerging opportunities and navigating the headwinds.

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 our capital expenditure profile will accelerate and while our operating expenditure will also increase, we anticipate a net benefit in efficiencies given the focus to maintain revenue momentum.

In conclusion, the financial year 2023 has been a chapter of financial fortitude, strategic foresight and resilient growth for our business. As we move forward, we are poised to embrace the future with confidence, knowing that our foundation is robust, while our strategies are sound with unwavering commitments to deliver long term sustainable value for all our stakeholders and a positive impact to the communities in which we operate.

Yusuf Omari
Chief Financial Officer

Human capital

For Absa, human capital refers to the competencies and capabilities of our people and the contribution 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 is impactful 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

In 2023, the people function took pride in enabling colleagues to understand our new corporate purpose and subsequently appreciating the culture, values and behaviours that underpin the Bank's intent to be a purpose-led organisation. Despite the challenges within the operating environment, employee sentiment remained positive with improvements in key metrics tracked.

Our focus remained on providing an exemplary employee value proposition (EVP) while attracting and retaining talent, ring fencing succession for critical roles, driving colleague engagement, enhancing diversity and inclusion (D&I), empowering our people through skills enhancement and responding to emerging concerns such as increased deductions due to the Finance Bill, 2023. Overall, we aim to have a resilient and responsive workforce that is future ready, nimble, collaborative, adaptive fostering a learning organisation.

Colleagues – who they are

Headcount	Women	Men	Women in Management	PwDs
2 130	51%	49%	49%	1.4%

Our performance

Colleague experience survey

	Absa Kenya 2021	Absa Kenya 2022	Absa Kenya 2023	Absa Kenya Trend
Participation rate	87%	90%	88%	↓
Colleague Experience Index	71.9	73.4%	75.3%	↑
Job satisfaction	7.69	7.81	8.02	↑
Employer advocacy	+35.47%	+41.3%	+49.6%	↑
Colleague Sentiment	Delighted - 27% Satisfied – 51% Not happy – 22%	Delighted – 29.8% Satisfied – 48.5% Not happy – 21.7%	Delighted – 33% Satisfied – 50.4% Not happy – 16.6%	↑

Our areas of strength keep on improving and becoming core muscle:

- **92.9%** ▲ (up from 2022 - 92%) of our colleagues believe they know what they need to do to be successful in their roles
- **90.4%** ▲ (up from 2022 - 89%) are proud to be working for Absa (81.6% in 2021)
- **89.4%** ▲ (up from 2022 - 87.2%) have access to learning and development opportunities (81.2% in 2021)
- **91.4%** ▲ (up from 2022 – 89.4%) are confident in Absa's ability to achieve its goals
- **89.9%** ▲ (up from 2022 - 88.2%) of our colleagues are inspired by Absa's purpose and look for ways to live this in my everyday work (81% in 2021)

Themes for 2023

Culture and values
Embedding our new Absa values and the accompanying behaviours

Critical skills retention
Identifying and proactively retaining critical skills required by the business

Employee surveys
Diverse assessments conducted to determine key employee metrics

Journey mapping
Improving employee experience during onboarding, transition and offboarding

Skills assessment
Determining the skills available in the Bank and skill gaps requiring resolution

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

Colleague shares scheme
Every permanent employee given an opportunity to own shares in Absa

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

Enhancing self-service
Improved ability of colleagues to self-serve on people processes

Culture and values

We held colleague engagements across the country between May and August 2023 to unpack our new purpose. Through a journey of co-creation, we united voices from every corner of Absa, weaving insights, beliefs, and aspirations into the very fabric of our values. With each exchange, our values matured through shared stories and grew into our identity – who we are and who we aspire to be. The essence of our purpose.

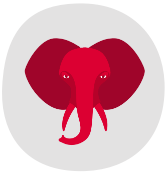
In November, we launched our new Absa values providing employees with a comprehensive values toolkit. Subsequently, we have unpacked our values through the Values Wednesday series, providing communication to enable employees determine how the corporate values complement their own personal values and the behaviours required to live these values out.

While Purpose defines our why; Values determine our how in pursuit of our Purpose. Our Values provide us with a guide to how we should approach everything we do and every interaction we have. They act as the building blocks for our organisational culture, providing us with a consistent north star, which we can refer to during times of prosperity and during times of challenge and change.

The behaviours that will make the values real

Our values become real when we live them in everything we do. Our behaviours, co-created by our colleagues, define how we must show up for each other. These behaviours define the spirit in which the values should be lived, but will be made real for each team and their unique context.

Trust



We believe in ourselves and each other.

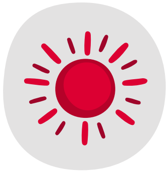
- I celebrate others' success.
- I take accountability for my actions.
- I embrace honesty and integrity.
- I create a safe space for others to fail forward.
- I am supportive, empathetic and kind.

Resourceful

We innovate for our colleagues, clients and communities.

- I am curious and willing to learn.
- I take the initiative to solve problems.
- I embrace diversity in all its forms.
- I bring my best self to work every day so I can outperform for our customers.
- I am resourceful and creative in my problem-solving.

Stewardship



We take actions today that sustain ourtomorrow.

- I am mindful of how my actions will impact future generations.
- I am committed to exceeding expectations.
- I embrace life-long learning.
- I cultivate a growth mindset.
- I embrace challenges as an opportunity to grow.

Inclusion

We are stronger together.

- I seek out collaboration.
- I embrace and celebrate diversity.
- I create safe spaces and honour others' boundaries.
- I treat all people with care and respect and endeavour to earn their trust.
- I share my knowledge and transfer my skills freely.

Courage

We show up as our authentic selves to own our story.

- I see and honour the humanity in others.
- I create a safe space for others to be vulnerable.
- I show up authentically.
- I speak up for others.
- I value others' unique contributions.

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Critical skills retention

All skillsets in the Bank are important for the sound operation of the business and creation of value. We have mapped the critical skills required to deliver on our strategic ambitions and ensure we create and preserve stakeholder value in the short, medium and long term. Further, we have also developed management programmes to enable us access and retain these skill sets.

Skill	Critical skillset	Management approach
Technology Skills	• Enterprise Architecture • Cloud Adoption • Agile Delivery • Cyber security • DevSecOps • Software Engineering • Technology Infrastructure, Network, Servers & Databases) • Automation at scale including Robotic Process Automation. • Technology Risk • Technology Operations	• Continuous exposure and development • Provide opportunities for development and growth in the organisation. • Job enrichment opportunities • Capability development programmes • Long-term reward incentives • Appropriate reward • Continuous self-learning and development
Sales & Relationship Management	• Sales, Relationship Management, • Portfolio Management, • Influencing Stakeholder engagement	• Strengthen employee value proposition • Succession management • Leadership programmes, • Job shadowing • Coaching
Data analytics/portfolio analytics	• Data science • Data Governance • Data analytics • Data mining • Artificial intelligence	
Credit Skills	• Credit • Relationship managers • UB	
New Business Product Knowledge	• Relationship managers • Operations Manager • Processors	
Leadership and management	• People Managers	

We are committed to attracting and retaining talent. Cognisant of the current war for talent globally and locally, and the key role of critical skills, we have continued to emphasise meaningful work that aligns with our colleagues' career aspirations while retaining a workplace that is vibrant, fun and great place to work.

Employee surveys

We conduct several employee surveys each year as a means of identifying key metrics on workplace and work-related matters. Participation in these surveys has remained high. We review all responses and develop follow up responses with clear action plans to enhance complements and address complaints. In 2023, we conducted the following surveys:

Survey focus	Metric	Key takeaways and actions
Work life balance survey Identify areas of improvement and develop strategies to enhance work-life integration for all employees within the organisation.	• The Bank wide average was 3.18	• Appreciation for the hybrid working model. • Consider alternate working arrangements for branch staff who work weekends and provide fitness facilities. • Enhance quarterly team bonding sessions.
Medical scheme survey To understand the medical insurance requirements of colleagues and get feedback on the current medical scheme.	• 79% of the respondents expressed satisfaction with the current cover. • 77% of the respondents feel the cover meets their individual and immediate family's needs • 80% of the respondents are satisfied with the panel provider choice.	• Enhancement of cover including upgrade to maternity cover
Mental health survey In 2022 we conducted a mental health survey which gave indications of male colleagues facing challenges but mostly keeping to themselves.In 2023 we conducted another survey - the XY Forum Survey - to identify the needs of the male colleagues and also get their feedback on the programmes they would like implemented in the programme.	• Survey results confirmed the need for a programme for male colleagues.	• Created a men's health and fitness programme #letsMoveXYChallenge • Soul Food Session 'Men of Valour' delivered. • Twenty-four male colleagues attended the Man Cave session in October 2023 focusing on Fatherhood and Finances.

Journey mapping

In the course of 2023, we assessed three key colleague journey maps to identify and resolve pain points. These maps focused on processes involved in onboarding, transition and offboarding. The intent was to improve overall employee experience during these processes by ensuring consistency, providing necessary support required and ensuring compliance with laid down policies, processes and regulations. Key enablers identified for these processes include:

- Ensuring the process is consistent, engaging and inclusive.
- Commitment from people managers and people business partners.
- Peer buddy system to support incoming colleagues to settle.
- Clear objective setting and role profile discussion between colleague and people manager.
- Proper coordination of all departments vital in the onboarding, transition and offboarding process.

eKhaya colleague shares scheme

eKhaya, is a colleague shares scheme offered to every permanent employee across the Absa Group. It enables these employees to own a share of Absa in line with the theme "Absa eKhaya is home". All permanent employees, irrespective of grade or position received the same offer with an option to opt out. This shares proposition will enable employees to participate in Absa's growth across the African continent and the value generated by the Group. Colleagues will hold shares for a period of five years and will receive dividends on an annual basis based on the Absa Group performance.

Skills assessment

In the year, using the workday skills depository, we undertook an assessment of the skills available in the Bank and mapped these skills to their current positions. We assessed these skills in terms of the Bank's skill needs and also future skills required by colleagues. We are now able to determine the skill sets available in the Bank and the gaps that require remediation. In 2023, over 80% of colleagues were mapped in this exercise.

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Learning and development

Fostering a high-performance culture requires empowering our teams. This drives our focus on improving the personal and work-related skills and expertise of our colleagues enabling them to effectively fulfil their roles holistically. Our goal is to instil a culture that inspires continual and lifelong learning which enables personal and professional growth. 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 ability to navigate disruptions)

Risk metric	Content	Colleagues enrolled
Udemy	Wide variety of learning areas availed to colleagues for personal and professional skills development. 8913 hours achieved in 2023.	4192
Masterclasses	One and a half hour sessions on critical skills	4192
Absa learning week	Offered 10 curated sessions on agility, data, digital innovation, leadership, career management, and financial wellness. A total of 1300 hours spent on training on future skills.	3391
Thought leadership sessions	All people managers and colleagues attended six thought leadership sessions	1,500
Mental health ambassadors training	Delivered five cohorts of training focused on mental health aspects	254
Portfolio Management	Five-day training on portfolio management with follow up session in 2024	222
Mind the Gap	Middle tier managers accelerated leadership development programme structured into four modules	80
Absa leadership academy	Leadership training sessions that covered branding and marketing you, dare to lead, ignite her and personal branding for senior managers. Each session of the leadership academy was conducted over a period of 3 days with a cumulative of 12 training days covered.	75
She Leads session	2-day personal branding, leadership and personal development skills	49
Moody's	Level 1 and 2 self-paced e-learning training	20
Pan African Banker	Banker training programme	15
People Managers trainings	Training for all people managers covering talent review, remote working, wellness capability and performance review	
Certified Expert in Climate & Renewable Energy Finance	Training focused on sustainability and climate opportunities financing	10
Accelerated development programmes	Enrolled to three programmes titled LEAD, Amplify and Sustain	10
Executive coaching	Leadership coaching programme	6

In 2024 we will increase focus on developing leadership succession for critical roles and leadership roles.

Women Network Forum

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 2023, the Forum undertook several initiatives while pursuing its overarching agenda including:

- International Women's Month event themed "Embracing Equity".
- LinkedIn Conversations on embracing initiatives focused on diversity and equity.
- Training of 26 female colleague mentors through the She Colleagues Mentorship programme.
- Held a She Leads Forum titled "Empower Her" with Dr Jennifer Karina.
- Three colleagues graduated under the Female Future – Women on Boards Programme.
- Women Network Talk on *"Navigating Power Dynamic "*with Absa South Africa.
- 49 participants completed the She Leads Leadership programme.
- Hosted a webinar on "Driving Diversity and Inclusion across Absa Kenya" with CEO Abdi Mohammed as the Chief Guest.
- 166 ladies on mentorship programme graduated.
- Hosted 38 Ladies participating in the Executive Leadership Program from Duke University from South Africa in discussion on "best practices from Kenya on driving Inclusivity".
- Hosted Women in Tech Forum with Catherine Muraga, MD Microsoft, Africa Development Centre

Looking forward

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

Priorities

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

Top Employer Award

In 2023, we were again recognised as a Top Employer in Kenya and Africa. This prestigious global recognition awarded by the Top Employers Institute validates our dedication to create a better world of work. The certification is a testament that, 'Our People are our Strength', and that the contribution of every colleague matters.

Established over 30 years ago, the Top Employers Institute has certified 2200 organisations in 122 countries that have positively impacted the lives of over seven million employees globally, enabling organisations to assess and improve the workplace environment with a view of creating exceptional places to work across the globe.

Federation of Kenya Employers (FKE) Employer of the year awards

1. Employer of The Year - Human Resource Practices and Industrial Relations
2. 1st Runner Up -Learning & Development

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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 trusted brand driving a sustainable future

Contributing to SDGs

SDG 4 SDG 8 SDG 10

Technology

Technology stands at the forefront of our strategic initiatives, acting as a catalyst for innovation and operational excellence. With Absa positioned as a leader in cost efficiency, technology serves as a driving force in streamlining processes and optimising resource utilisation. This commitment to operational efficiency positions us as a benchmark within the industry and underscores the indispensable role played by the technology team in our overall success.

Going beyond operational streamlining, technology serves as a transformative force in reshaping our customer experiences. Our commitment to leveraging technology is evident in the delivery of cutting-edge products and propositions designed to positively transform customer experience. This is a journey we are committed to holistically.

Through innovative solutions, we aim to enhance customer interactions, providing a seamless and tailored experience that surpasses conventional banking norms. This customer-centric approach reflects our understanding of technology as a powerful enabler, allowing us to evolve in tandem with the changing needs and expectations of our diverse clientele.

Despite the challenges posed by external factors in 2023, our performance was resilient. Various elements, such as logistical challenges, including chip shortages and extended shipping times for critical infrastructure, along with increased activity in the cybersecurity domain globally and locally, added complexity to our operational environment. Yet, our commitment to technological advancement remained unwavering, enabling us to navigate and adapt to these challenges while maintaining our focus on operational excellence.

Initiatives for 2023

Cloud adoption
We deployed key workloads to cloud thus enhancing our service scalability during peak customer demand periods and enhancing our operational efficiency. The programme continues into 2024.

Bolstering software engineering capacity through partnerships.
We established partnerships with two local software houses ensuring a more robust workforce ready to undertake projects.

Service Operations Centre (SOC)
Establishment of a Service Operations Centre (SOC) marked a milestone in fortifying local service operations capacity, laying a foundation for a centralised operations functions leveraging on its consolidated synergy to attend to customer issues expeditiously.

Digital channel upgrade
We continue to upgrade our digital channels with features as we target to accord customers with maximum convenience, where our channels facilitate their lifestyles

Technology upskilling
Strathmore partnership for training on Data Science, Agile and DevSecOps, CyberSecurity. The first cohort of 107 colleagues graduated in January 2024.

Data centre colocation
The execution of the Data Centre Colocation Strategy saw us raising the standards and robustness of our data centre where we consume utilities at wholesale rates whilst we benefit from the stability associated with a Top Rated Tier Data Centre.

Cellular network technologies
We incorporated cellular network technologies, specifically LTE, to enhance the connectivity resilience of branches and ATMs in remote parts of the country. This has significantly improved the reliability and availability of our services in those areas.

Our performance

Stability of our core banking system

In recognising the need for a robust and stable technology infrastructure, we successfully completed Phase I of the upgrade of the core banking database in 2023. This upgrade is essential in ensuring the stability and reliability of our core systems. Phase II of the upgrade is scheduled for execution in the first quarter of 2024, promising further enhancements to system stability, a reduction in downtime, and fortification of the overall reliability of critical banking processes.

Our customer-facing employees require certainty that customers can transact seamlessly and conveniently. To address this, we are actively exploring the implementation of a modern core banking system, with the kick-off target set for 2025. This forward-looking initiative is aligned with Absa's vision to deliver best-in-class digital services, ensuring a seamless and user-friendly experience.

Our ongoing exploration reflects our commitment to staying ahead of technological advancements and continually improving its capabilities to meet evolving customer expectations.

Investment in technological infrastructure

At Absa, our continuous investment in technological infrastructure remains paramount to ensure a seamless and reliable banking experience for our valued customers. Through persistent efforts, we have implemented advanced access control measures, deploying robust security protocols to provide a secure and trusted environment for their digital transactions, further safeguarding our customers financial well-being.

In 2023, we addressed instabilities within our digital platforms. Driven by customer feedback and evolving preferences, we introduced additional features across our digital channels, enhancing the overall functionality of our digital offerings. We automated behavioural scorecards to better understand and cater to the unique preferences and behaviours of our customers. This innovative approach has allowed us to tailor our services, providing a more personalised and efficient experience for each customer.

Responding to the increasing demand for streamlined transactions, we have enabled straight-through Mobile Money to Bank Deposits. This initiative simplifies the process, enabling customers to seamlessly transfer funds from mobile money accounts directly into their bank accounts. This has contributed to an increasingly frictionless and efficient banking experience.

We introduced the automation of SME statement assessment to expedite loan approval processes. This strategic move has amplified the efficiency of our lending services and supported the growth and financial well-being of small and medium-sized enterprises.

Core process automation

In addition to the focus on system stability and enhancing customer convenience, Absa has made significant progress in core process automation. We remain solidly on course to execute our Cloud Adoption Journey, having completed two fundamental migrations in the past year. Moreover, we have obtained design approvals from Cloud Subject Matter Experts, allowing us to progress with an additional five migrations, scheduled for the first quarter of 2024. This strategic approach reaffirms our commitment to harnessing the power of cloud technology for enhanced operational efficiency.

We have achieved notable milestones in our automation strategy, successfully automating 62% of critical processes in 2023. This positions us as leaders in leveraging automation to drive efficiency and deliver value to both our employees and customers.

Service providers and partners

Our service providers, suppliers, and partners remain integral contributors to the execution of our technology strategy, offering bespoke skills and capabilities essential for our continued success. In 2023, we intensified our collaborations through frequent interactions and feedback loops. This approach facilitates ongoing improvement and ensures alignment with our strategic objectives. Conducting quarterly Service Level Agreement (SLA) reviews have served as a structured mechanism for evaluating performance, fostering accountability, and driving excellence in service provision.

Future projections

As we enter the acceleration phase of our technology strategy, we seek to launch a refreshed Country Digital Delivery Team in the first quarter of 2024. This team will serve as a driving force behind the execution of our Digital Bank Strategy.

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 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 support 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 sound 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.

Data partnerships: We have created a vibrant partnership ecosystem with several FinTech's cutting across diverse sectors and specialisations to deliver increased values and also provide information on data privacy and protection. We have data sharing agreements in place and observe the requirements of the relevant legislation on informing data subjects. Partnerships enable us to get a wider view than if we depended solely on the data we hold.

Data primacy

The primary legal requirement for data protection in Kenya is outlined in the Data Protection Act which came into force in 2019. The Act established the regulations for how personal data is processed, the rights of data subjects and the consequences of non-compliance. Over the subsequent years, the Data Protection Office (DPO) was established to oversee the implementation of the provisions of the law and a Data Protection Commissioner appointed. In the past year, the DPO has shown increased enforcement of the provisions of the law, a trend that is expected to continue.

Absa has maintained a proactive approach to data privacy and protection ensuring stringent adherence to its own standards and regulatory requirements. The Bank has not had a material breach in this regard and maintains high levels of vigilance. Beyond this defensive stance, Absa has positioned data as a key driver for improved decision making, stakeholder value creation, risk management and operational efficiency. The Bank is experiencing increased data maturity denoted by the way data is being used, an increase in colleagues who are data literate and able to insightfully use data in their work and an overall improvement in the understanding of data and reports. This includes trends, causality, correlations and targeted approaches to advertising and customer engagement.

Data modelling

In 2023, we embarked on the creation of data models that will enable the Bank to increase its level of accuracy in determining macroeconomic variables and the anticipated external environment. Due to increased complexity and unpredictability, modelling supports several key facets of our performance including determining heightened risks with regards to the performance of loans and other financial instruments, evaluating the performance of money markets, projections on credit risk and predicting shocks or changes anticipated in the macro environment. Modelling involves engagement with the business segments within the Bank and collaboration with the Absa Group.

Data in product actualisation

With the advent of risk-based pricing, the Bank is redesigning products which were previously created under an interest rate capped environment, to ensure they are relevant and suitable for our customers. In addition, as the economy goes through different forms of shifts and changes, we intend to be more responsive to those variation in our engagement with our customers.

The Bank is therefore investing in understanding the customers persona within this dynamic context and proactively determining ways meet their needs based on certain parameters such as transactional and risk behaviour. These tailored propositions underpinned by data analytics will enable the delivery of appropriate products and services. In addition, product improvements have also been data driven such as enhancements on credit cards.

Data demand

Due to an uncertain environment, the demand for data by a variety of internal and external stakeholders is high since there is need for insights with preference for current and real time information. In this regard, we offer regular reports to address this need for useable information and data such as supporting customer facing colleagues with real time data through customer scorecards enabling them to make informed decisions in a timely fashion. For example, the digital and payments teams are using data to gain improved visibility on performance across different channels. As digital transformation is a key agenda for Absa, data is positioned as the key enabler to drive this transformation. For Timiza, our digital offering, data driven enhancements are being considered through a test and learn approach that involves diverse types of customers, cohorts, limit variations and different types of scorecards.

Engaging customers through data

We are using data analytics to support our ecosystem proposition by offering participating businesses with tailored support as we understand their businesses and create specific scorecards that enable us to develop the right solutions for them. We create and collaborate with these businesses on a continuous basis therefore adapting to any changes that occur in their business model or context.

Further, we are using data analytics to respond appropriately to customer feedback and complaints. Using artificial intelligence, we analyse customer feedback on four different platforms from social media to call logs. We are able to understand the key issues raised and trends in customer complaints, the key need and how to respond to resolve these issues. In addition, we can relate these complaints to the customer experience metrics and also proactively anticipate and resolve issues before they arise thus offering systemic solutions.

Data is also playing an important role in identifying leads both in the market and among our existing customers. We have a monthly tracker that shows the percentage of sales leads that are coming from data leads-these numbers average around 18% to 20%. This means that data analytics is enabling our sales teams to be more targeted in their pursuit of leads as they offer appropriate propositions to existing and potential customers.

Data partnerships

Although the Bank has a large amount of data, we realise that our ambition to use data intensively as a key driver of sound decision making and value creation require us to access data that is outside our repository. We are therefore experimenting with data partnerships at a high scale including working with FinTech's within various sectors – such as agriculture, distribution, microlending – to create win-win propositions. Absa has an active open-door policy towards data partnerships in pursuit of enhanced opportunities for value creation. Within the ecosystem space, we have partnered with aggregators and distributors to create tools that enable business customers to access financing products. Through partnerships, Absa benefits from a complete view, or the full data set that customers interact with. This is enabled by having access to partner platforms which showcase the financial history and health of these customers.

Looking ahead

Data will continue to play a critical role in delivering value for stakeholders and enabling the achievement of the Bank's strategic aspirations. More specifically, data will have a critical role in the digital agenda of the Bank, which is focused on making the customer experience easier, faster, better while using different channels, technologies or products. It is anticipated that data driven solutions will be provided in the mid-term offering easier accessibility to different interfaces and touch points for all customers.

The Bank is also looking at using artificial Intelligence to enhance operational efficiency and simplify processes and procedures. In the course of the coming year, Absa will launch an internal Large Language Model (LLM) called Citrus. AI will also be used to identify compliance requirements and gaps enabling resolution. Further, data is positioned to support the Bank identify sustainability risks and opportunities as Absa seeks to enhance responsible consumption and production, energy efficiency, climate-responsiveness and responsible lending practices.

These aspirations will be pursued as the Bank addresses challenges such as inadequate data sharing and reciprocity which impacts on data partnerships as well as enhancing the data literacy of our colleagues and key stakeholders to enable them create value through data.

Brand

We continued to step up our efforts to establish Absa as a loved and trusted brand driving a sustainable future. This is a key enabler of our strategy, emphasising the importance of our brand reputation as a pull factor for customers, colleagues, and other stakeholders in order to increase our market share.

The journey of firmly establishing the Absa brand has been exciting and challenging, but also rewarding and inspiring. For a brand that is only four years old in this market, achieving over 90% awareness and reputation levels and surpassing the older brand is impressive. However, we recognise that establishing a brand and its subsequent meaningful consideration by customers and other stakeholders is not a one-day event. It necessitates consistency, strategic planning and investment, as well as meticulous execution through an Always On approach. This ensures that our brand is solidified and remains at the top of the minds of various stakeholders. Ultimately, effective branding strategies are expected to result in increased visibility and market share, thereby contributing to a higher bottom line.

We aim to accelerate momentum in establishing brand relevance while changing capacity and capability for marketing excellence and brilliant execution. We will achieve this goal by improving brand consideration and connection, increasing relevance and market share for our business. In addition, we aim to accelerate brand reputation and advocacy through stakeholder engagement strategies, and deepen brand trust and affinity through our "Force for Good" agenda.

From a brand standpoint, we want to continue demonstrating that Absa is a stable, trustworthy local Kenyan brand that understands and empowers our stakeholders' passions and assists them in achieving their goals. These efforts is supported by locally relevant and differentiated brand building campaigns, assets, and sponsorships.

During these difficult economic times, customers want to feel seen, heard, and understood. They want tangible and relevant solutions that meet their needs. As a result, our efforts will be focused on demonstrating empathy for customers through benefit-driven propositions and positioning campaigns, as well as building credibility through customer testimonials.

Furthermore, with increased internet access, customers expect convenient, seamless, and intuitive experiences for socialising, information, convenience, and entertainment. Our job is to position our online and offline network and distribution solutions as available and accessible when and where customers want them, at their convenience.

We also understand that customers are increasingly placing high value on brands that care about the communities in which they operate and act in the best interests of others. This highlights our strategic intent to continue demonstrating our role as a "Force for Good" in society, as well as our commitment to creating shared value. Finally, we have and will continue to strengthen our stakeholder engagement efforts as a means of establishing our corporate brand through leadership profiling, thought leadership, and strategic communication initiatives.

In 2023, we focused on five key themes and supporting initiatives, by:

i. Driving relevance to grow market share through positioning Absa as a locally relevant brand that is driving a sustainable future and profiling key campaigns on digital and legacy media.

ii. Driving connection from our brand by embedding Africanacity in all our stories and leveraging our Brand Assets to tell our brand stories.

iii. Highlighting our people credentials so as to position Absa as a home of talent, sustain leadership profiling in different communication platforms, issues jerking and speaking opportunities.

iv. Growing thought leadership and advocacy so as to build and deepen relations with key stakeholders.

v. Enhancing our role in society and positioning the brand as a "Force for Good" while telling our impact stories.

In view of our operating environment, we considered four new execution approaches in 2023.

i. Execute a brand thematic campaign as an always-on above the line (ATL).

ii. Evolve from a fragmented campaigns approach into holistic business positioning for key segments.

iii. Ecosystem media planning to maintain a consistent high share of voice and media efficiency.

iv. Elevate our stakeholder engagement and communications initiatives to retain our leading position in brand reputation while deepening relationships with our critical stakeholders to grow Trust.

Initiatives undertaken in the year

To enhance our brand equity, we engaged in several strategic initiatives and campaigns including leveraging brand sponsorship assets, delivering holistic and thematic brand campaigns. It also required maintaining an always-on strategic media presence and contributing to society through our "Force for Good" approach. We engaged in strategic communications, partnerships and thought leadership to build meaningful relationships with key stakeholders while also leveraging industry and ecosystems networks to drive meaningful business engagements. Some of the initiatives in 2023 included :

- **Africanacity Stories**: through a TV led brand campaign to showcase Absa as a doing brand bringing to life our brand purpose in order to grow our relevance and consideration.
- **Role in Society Testimonials and Citizenship:** using a video-led campaign to illustrate Absa's role in society as a "Force for Good" through our Sustainability and Citizenship initiatives. This was through testimonials that showcased Absa as an involved and caring brand.
- **New Brand Campaign:** a TV led brand campaign.
- **Strategic Brand Asset (Kip Keino Classic Athletics and Magical Kenya Open):** Leveraged our stakeholder's passion points through our brand assets to drive connection with Kenyans and deepen relationships with our client.
- **Colleague engagement:** through the regional Managing Director engagements, purpose roll outs, virtual townhalls, soulfood sessions, colleague campaign known as #Let'sMove, monthly newsletter, departmental reward and recognitions awards, eKhaya launch and colleague events.

Metrics to monitor

We have made significant gains in growing our brand awareness and reputation; the next phase of our brand building is to scale our consideration and relevance.

Key reputational accolades received include:

- #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)

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

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

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	2022	2023
Retail Banking		
Composite Metric	69%	89%
CX Index	86%	105%
NPS	41%	52%
Complaint Index	86%	74%
TCF	-	89%
Business Banking		
Composite Metric	60.4%	83%
CX Index	82%	104%
NPS	23%	46%
Complaint Index	94%	53%
TCF		88%

- 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.

Absa recognised by Institute of Customer Experience (ICX)

At the ICX event to celebrate the best in the market in Customer Experience, Absa was recognised as the Best in Internal Customer Experience (1st Runners up). This achievement is a testament to the dedication, hard work, and commitment that each member of our team has put into creating an exceptional workplace and ensuring the best possible experience for our colleagues that has led to exceptional customer experiences.

The recognition is a result of our collective efforts to foster a culture of collaboration, transparency, and continuous improvement. From the frontline staff to the leadership team, everyone has played a crucial role in making our Bank stand out in terms of internal customer satisfaction including our esteemed customers.

Medium, Small and Micro Enterprises (MSMEs)

In 2023, Absa affirmed its commitment to supporting MSMEs by announcing Shs 100 billion to support the growth of this business segment. This funding comes at a time when Kenya's MSMEs are contending with a challenging operating environment marked by high inflation, increasing interest rates, the impact of the Russia-Ukraine war, Gaza conflict, and elevated taxation as per the Finance Act of 2023, among other factors. The financial support will bolster the sector's resilience by providing easily accessible working capital, sustainable finance solutions and expertise. The support is focused on MSMEs across various value chains over the next three years and will include a holistic business banking approach that is anchored on four pillars; access to information, access to mentorship and coaching, access to markets, and access to sustainable finance.

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 3.5 billion 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.

Women in Business

Empowering women

Last year we launched our premier 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 the launch in May 2021, we have advanced over Shs 4 billion to 1,700 women entrepreneurs in 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. To advance access to 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 the mentorship programme. To support women to access markets, we continued to link them with key corporates as suppliers under the ESD programme. We partnered with the International Finance Corporation (IFC) to provide gender specific training for our colleagues addressing the unique needs of women customers. Through this training programme, we offered gender intelligence training to 350 Absa staff drawn from all regions of the country.

> *"With access to finance being one of the most pressing obstacles faced by women entrepreneurs in Kenya and globally, we hope that more financial institutions will follow Absa Bank Kenya's footsteps in unlocking business financing for women."*
>
> **Pamela Coke-Hamilton, the Executive Director, International Trade Centre**

In 2023, Absa entered into a partnership with the International Trade Centre (ITC) to host the ITC SheTrades Kenya Hub for two years. As part of this partnership, we have committed to empower over 1 million women entrepreneurs across the country by 2025.

Absa, Unilever and UNITAR partnered in the Sunlight Women of More Program, an initiative to empower 5,000 women entrepreneurs across Kenya by developing their social or for-profit businesses. The virtual self-paced training empowered women entrepreneurs' with skills in social entrepreneurship, financial and digital literacy. The entrepreneurs were able to define their business models and pitch decks and develop business operationalisation plans, including risk assessment and mitigation, personal leadership and development plans.

In partnership with Melanin Kapital and the African Guarantee Fund, Absa hosted a networking session bringing together entrepreneurs under the gender-inclusive #Tuungane2XProgramme aimed at supporting SMEs become credit- ready. This is in line with our Business Banking pillars that seek to, among others, provide access to training and mentorship opportunities for MSMEs. The first cohort which consists of over 300 entrepreneurs were taken through a credit-readiness programme to help them scale their businesses through access to finance. Key highlights of the programme include a clear step-by-step guide on access to financing, networking and a chance to learn what entrepreneurs need to grow their businesses. Among the key messages at the event were the importance of an elevator pitch, being fearless and the willingness to always learn, unlearn and re-learn.

Gender mainstreaming awards

Absa was honoured for our commitment to gender inclusion during the 11th Gender Mainstreaming Awards in October. We were finalists for community economic empowerment of women as well as economic empowerment. The awards are organised by Business Engage. Further, Absa was also awarded the Best SME Bank for Women Entrepreneurs in Kenya at the Global SME Banking Innovation Awards 2023.

SHE Stars Academy Graduation

Over the course of 18 months, Absa in partnership with GIZ aimed to support up to 1,500 women-led micro, small and medium enterprises to build more resilient, sustainable and competitive businesses. This is response to disrupted livelihoods, climate change, biodiversity loss and a resource depleting economy. The beneficiaries were equipped with the necessary tools and skills to capitalise on their business models to drive change and examine the broader landscape in which they thrive. Between December 2022 to June 2023, the programme garnered significant attention, attracting a total of 2,146 applicants.

The programme culminated with a graduation in May 2023 to celebrate 402 SHE STARS from cohort III and IV at an event that hosted the Nobel Peace Prize Laureate, Prof. Muhammad Yunus as the chief guest

Wezesha Biashara

Wezesha Biashara is our flagship campaign which positions the Bank as a partner of growth for our SME customers through the provision of finances, capacity building and networking. 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.

The campaign was amplified through the use of various regional radio stations that increased reach to mass audiences and branch-led activations in various regions. The Bank also leveraged on partnerships with business associations as well as various Business Club and Women In Business (WIB) engagements with our partners including the Kenya National Chamber of Commerce and Industry (KNCCI), SME Founders, SNDBX, and Market Storms. We impacted over 35 000 entrepreneurs through the market storms and activities

In the course of the year, we introduced yet another business proposition, WezeshaStock, a real-time digital platform that boosts inventory management and trading for Small and Medium Enterprises (SMEs). The WezeshaStock platform automates stock financing for retailers to complement their financing needs. It also provides capabilities to onboard retailers, manage stock orders, and unlock access to unsecured stock financing for retailers using data analytics.

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Absa Business Club

Established in 2007, the Absa Business Club is a platform where entrepreneurs receive financial and non-financial benefits including training, networking opportunities, access to markets, business knowledge and information, thought leadership training and strategic partnerships. Cognisant of the impact of COVID-19 on SMEs, the Absa Business Club continued to host monthly thought leadership webinars providing our customers with access to knowledge and information. These engagements have benefitted over 1,400 customers through training sessions facilitated by subject matter experts and covered several topics as shown in the table below:

Topics	Content
Pension Inclusivity in Kenya and its Impact to SMEs	Unpacking NSSF Act 2013 and its impact to Business Owners
Access to Kenya Credit Guarantee Scheme & Importance of Formalising businesses	Why and how to formalise SME businesses Accessibility of the Kenya Credit Guarantee to our SMEs
Elevating Customer Experience	Having a connected customer experience, where self-service analytics enable companies to improve their overall performance, open up new business models, and new ways of working through innovation
SMEs and taxation-Highlighting of the Finance Act and its effects to SMEs	Understanding taxes payable by SMEs and demystifying handling of tax related issues with KRA office
Management of Employment Contracts for SMEs Part 1	Strategies entrepreneurs can use to boost employee satisfaction and engagement
Management of Employment Contracts for SMEs Part 2	Strategies entrepreneurs can use to boost employee satisfaction and engagement
Unpacking the 2023 Finance Act and its Tax Implications to SMEs.	Tax changes impacting SMEs and other entrepreneurs
Opportunities for Businesses to thrive in a BANI World.	Business coping and thriving techniques in the current challenging business environment

SME Empowerment Forum

In addition, Absa organised an Annual SME Empowerment Forum under the Business Club, an event that brought together key stakeholders in the SME ecosystem to engage in meaningful conversations, share knowledge, and explore innovative solutions for the sector's sustainability and success. The event featured prominent stakeholders including Government agencies, our partners KNCCI, Kenya Association of Manufacturers (KAM), Organisation of Women in International Trade (OWIT) and the International Trade Center (ITC), amongst others. The Forum was themed, "Opportunities for businesses to thrive in a BANI world," reflecting the dynamic and rapidly changing business landscape where businesses must adapt to thrive and succeed in this Brittle, Anxious, Nonlinear, and Incomprehensible (BANI) environment.

Business trips

Part of the Business Club non-financial offering is to create opportunities for networking, exposure to markets and business benchmarking for our customers through trade missions to various destinations internationally, regionally, and locally. In 2023, we organised two trips to Ghana and South Africa respectively. We organised a trade mission to Accra, Ghana where over 30 women in business attended the 2023 Inspire Me Conference. The conference gathered about 500 women SMEs across the continent (Ghana, Zambia, Uganda, Tanzania, Nigeria and Kenya) to connect, learn, share, and be inspired by renowned international and local speakers with the theme of the conference "empowering women's economic growth together". The business trip was supported and sponsored by our partners International Trade Center (ITC) and Finance in Motion.

Our second business trip was to Cape Town, South Africa and was focused on agribusiness (cattle keeping, fruit farming, winelands), waste management, renewable energy manufacturing and construction sectors. Customers who travelled had an opportunity to experience unique and exclusive networking opportunities, exposure to markets and business benchmarking.

Protecting customers

Fraud

Key focus areas for 2023

- 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 sensitisation 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 is a critical challenge for financial institutions in Kenya with fraud trends remaining similar over the post-Covid period. Major fraud aspects include card-not-present, internal fraud, lending and payment fraud. The key response to fraud includes customer awareness through internal and external messaging and social media awareness campaigns.

In response to global fraud trends, we have instituted Bin randomisation, strengthened system monitoring for CIB and RBB products and upgraded our monitoring system. In the coming year, internal fraud will remain an area of focus while we will enhance maturation in ensuring adherence to rules as we embed our new fraud prevention projects.

In terms of systems, the Bank implemented Falcon (Falcon 6.1.5) in 2014, to manage Fraud Risk on the Debit Card side. The current upgrade to Falcon 6.5 is geared to align the system capabilities to the Card fraud landscape where the threats and fraud trends keeps changing.

Some of the key enhancements include:

i. Incorporation of some data science aspects into the system. This will bring the ability to run multiple models and reference multiple scores as such improve fraud detection and preventions through rule efficiency.

ii. Deployment of containerised version of the platform to increase the speed and ease of future upgrades and maintenance.

iii. Integration of FICO Identity Resolution Engine (IRE) to Falcon database, allowing for in depth investigation and analysis of organised criminal networks.

1 605 colleagues attended fraud training in 2023 as we support 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 whistle blowing toll free number: 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.

- 2023 FY Gross loss Shs 81 million
- Recoveries Shs 32 million
- Net loss Shs 49 million
- Frustrated fraud Shs 498 million
- 22 Fraud training sessions held for colleagues in 2023
- 1,640 colleagues completed annual fraud training
- 12 fraud sensitisation SMS alerts sent to customers
- Two Social media campaigns held
- Participated in fraud awareness campaigns spearheaded by the Kenya Bankers Association

Case study:
Supporting agriculture and agripreneurs

Post-harvest loss management interventions in the horticulture value chain

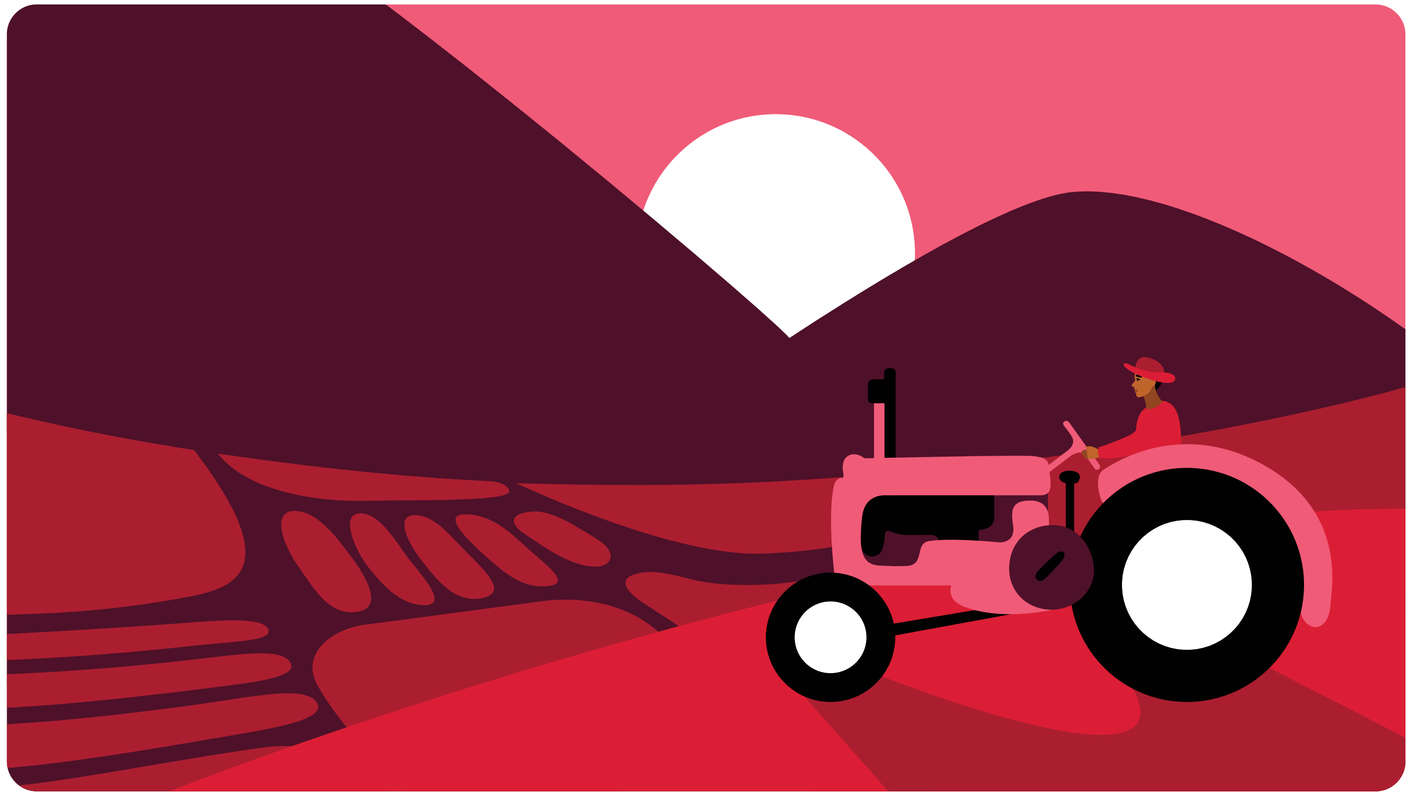
Absa Bank Kenya in partnership with Fresh Produce Consortium Kenya and Moving Frontiers sought to address the challenges of post-harvest losses in the fresh produce sector of Kenya. These challenges, include inadequate knowledge in post-harvest handling, poor farming practices, unpredictable weather patterns, and limited resources for necessary infrastructure. This results in significant food loss, waste, and financial setbacks. Recognising the impact of these challenges on overall production, training sessions were organised aimed at enhancing the capacity of stakeholders and guiding them on securing funding to bolster their production efforts. The training sessions were conducted at various locations across the country, including Nakuru; Mwea Kirinyaga; Embu; Meru, Nanyuki, Murang'a; Thika and Nairobi.

Capacity building of selected cereal value chain stakeholders

Nearly one third of food produced in the world for human consumption is lost or wasted every year. The cost of this food loss and waste amounts to roughly USD 310 billion in developing countries. The African Union Post-Harvest Management Strategy developed in 2018 aims to effectively guide and coordinate post-harvest loss reduction initiatives at the regional and national levels to r in line with the Malabo Declaration. Responsive to these global and continental perspectives, Absa in collaboration with the Cereal Growers Association (CGA) and Moving Frontiers, facilitated a training session whose overall objective was to promote the use of post-harvest loss reducing practices and technologies among cereals traders, and hence increasing farm profits.

Dairy farmers post-harvest training

The training focused majorly on handling of post-harvest loss (PHL) and financial literacy to enable farmers to improve farm profitability and productivity. It also covered dairy feeding and rations and cow housing and comfort, to address existing constraints at the farm level. These trainings were jointly delivered by Perfometer and Moving Frontiers. The trainings targeted farmers who are members of dairy processors such as Fresha Limited, Kirima Dairy, Aspendos Dairy, and Demka Dairy. The trainings were conducted in September and October 2023 in two model farms i.e Meved Dairy Farm in Mwea and Risa Farm in Limuru. In total, 54% of participants trained were women. This initiative is part of Absa's involvement in enhancing sustainability practices in various agricultural value chains as a partner of the Eco-Business Fund.



Society

Our interdependent relationship with the society in which we operate is a key pillar for success and an essential ingredient in our social licence. Our "Force for Good" agenda indicates our intention to deliberately create value for society through our business model and social investments.

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	2023 YTD
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	20% Total Sustainable finance Shs 60Bn
2	Increase diversity in the supply chain, focusing on women, youth and persons with disabilities (PWD)	Achieve 30% diversity	2025	12%
3	Investing in the future of the youth through skills development with our ReadytoWork programme	Train one million youth	2025	20 274
4	Become a net-zero carbon footprint company by 2040	Achieve Net-Zero	2040	Sourcing and procurement of vendors for smart meter readers complete
5	Increase biodiversity and encourage environmental responsibility through planting trees	Plant 10 million trees	2025	728 095
6	Empower our suppliers and create awareness on corporate sustainability and responsible business practices	Train all suppliers on sustainable business	2021	More than 90% active suppliers trained Over 500 special groups suppliers trained on Absa Procurement
7	Direct and indirect economic contribution to the Kenyan economy through our current and future funding	% of contribution to economy	Continuous	3% UNCTAD economic contribution model
8	Become one of the best places to work in Kenya	Top 10	2025	Top employer
9	Investing in training and upskilling the future skills and competencies of our employees	Train all employees on at least one future skill	2021	Continous
10	Increase proportion of women within all levels: junior, management and board positions: Gender parity	Attain 50% across all levels	2025	47%
11	Assess and manage our indirect environmental and social impacts	Reduce and mitigate negative impact	2021	Full automation of ESMS complete
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	Strategic sustainability and reputational risk framework and Sustainability Risk Policy localised
13	Continued partnerships for the goals	Number of partners and value created for society and business	Continuous	Absa Foundation launch scheduled for 2024

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Computer labs to support digital literacy in Kenya

The Bank is determined to improve digital literacy among secondary schools through its computer lab donations project. Each school receives a computer lab consisting of 20 fully networked desktop computers and desks and tables for lab furniture all fully fitted with the relevant software. The programme is targeting all 47 counties in partnership with Computer for Schools to enhance digital literacy. The Bank aims to fully equip and furnish 70 computer labs in select primary and secondary schools across the country. The project has so far benefited 63 schools, impacting 63,000 students.

Driving sustainable finance

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, 20 colleagues were able to complete a sustainable finance course 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 which 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 initiative 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.

Launched our PWD roadmap

In response to the consolidated Roadmap for Digital Accessibility and Financial Inclusion of People with Disabilities released by the Kenya Bankers Association (KBA) in May 2022, the Bank has maintained the 5-pillar structure provided by KBA. The Absa Bank Kenya Roadmap has been developed as follows:

i. **KYC (Know your customer)** - Mapping of staff, clients, and stakeholders with disabilities.

ii. **Access** - Physical access, creation of strategy and policies for PwDs

iii. **E-banking** - Accessibility of all the Bank's digital channels

iv. **Support** - Training and capacity building to support PwDs

v. **Information Access** - Documentation and signage

ReadytoWork

This pillar refers to upskilling, capacity building and providing educational financial assistance to the communities in which we conduct our business. While there is a strong focus on students, interventions are not limited to schools or youth but, more generally, seek to enhance the knowledge and capacity among constituencies such as the youth, entrepreneurs, government employees and governance bodies. The programme, which was launched in Kenya in December 2015, and sought to recruit 40,000 youth on its platform, has reached 250,000 young people to date.

The Ready to Work app is a free training curriculum that seeks to empower young people with the training and skills they need to enhance their employability and entrepreneurial prospects. The app provides access to world class learning content, focused on work, people, money and entrepreneurial skills, all through online content, skills training and work exposure.

Enhanced financial literacy

Absa unveiled an initiative to enhance financial wellness of Kenyans. The initiative seeks to celebrate Kenyans' resilience and educate them on appropriate measures to improve their personal financial wellness as well as enhance their capacity to access funds to achieve their goals. Under the banner, "Every Kind of Financial Solution for Every Kind of You", Absa is reinforcing its commitment to financial wellness through solutions, tools and tips that will enable them to rise above the different aspects of their lives as well as the impact of financial decisions on their future.

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 trusted brand driving a sustainable future

Contributing to SDGs
SDG 7 SDG 8 SDG 15

Sustainable finance commitment

In 2023, the Bank indicated a commitment to double financing to sustainable finance to Shs 120 billion. This initiative, which is part of a larger commitment to sustainability, aims to advance green and inclusive finance components, support financially excluded groups, and reduce carbon footprint. By close of the year, close to Shs 60 billion had already been advanced in sustainable finance including green and inclusive finance components. More specifically, Shs 15 billion has been allocated for climate-smart agriculture. In addition, Shs 25 billion has been allocated to climate finance. Additionally, Shs 15.2 Billion has been disbursed through the Timiza programme to support financially excluded groups.

Absa partnership with IFC

The project will support Absa to expand its green lending activities across its business units, specifically through provision of technical support in green finance strategy development, fine-tuning green lending products, training of client staff and development of monitoring tools for green finance reporting. The project will be delivered through the following five modules:

- **Module 1:** Providing input to Absa climate finance strategy.
- **Module 2:** Sector studies covering the wants and needs for Sustainable Energy Finance.
- **Module 3:** Trainings and awareness sessions for the Absa's staff.
- **Module 4:** Risk mapping and product development.
- **Module 5:** Transaction support.

Climate finance

Green building

Acorn Holdings Limited (AHL), East Africa's largest institutional rental housing developer, together with Absa Group and Absa Bank Kenya, announced the successful conclusion of a Shs 6.7 billion financing agreement to support the development of a further ten purpose-built student accommodation (PBSA) developments in Nairobi, Kenya. This will add another 12,000 beds to the Acorn Student Accommodation REITs to bring the total bed portfolio to 21,000 beds – the largest such portfolio in Africa.

Renewable energy

Absa, in partnership with Sun King, is investing Shs 2 billion in the development of solar-powered projects for off-grid communities in Kenya. This is part of a syndicated finance facility worth Shs 17.9 billion which brings together several commercial banks and other partners to bundle financial innovations that route funding to environmentally friendly projects.

Being one of the investors, the Bank will provide funding to a Special Purpose Vehicle (Sun King Financing Ltd) to acquire the eligible receivables from Sun King Kenya. Sun King in turn, designs, distributes, installs, and finances solar energy solutions for African households and businesses who cannot access, rely on or afford traditional electric grid connections.

Financing Safaricom Sustainability Linked Loan (SLL)

Kenyan mobile operator Safaricom secured a Sustainability Linked Loan (SLL) of up to Shs 20 billion from a consortium of Kenyan banks. It is the largest ESG linked loan facility ever undertaken in East Africa, and the first of its kind for Safaricom. Funding has been provided by four banks including of Absa Bank Kenya.

Climate smart agriculture

Absa signed a Shs 1.26 billion financing deal with Eco-Business Fund to support climate-smart agricultural practices in Kenya. The funding aims to enhance resource efficiency, bolster food security, and reduce the impact of climate change on agriculture. Furthermore, the Fund intends to organise roundtable discussions to build relationships and share information with exporters, aggregators, and processors on prioritising sustainability in two emerging export crops: avocados and macadamia.

Accolades in Sustainable Finance

Absa was recognised at the Kenya Bankers Association Catalyst Awards. This is a great celebration of the efforts of all our colleagues from across the organisation working tirelessly to build a sustainable financial institution that positively and increasingly delivers for People, Planet and Prosperity.

We won the following awards:

- Best in Sustainable Finance
- Best in Bank Operations
- 1st Runner up for Promoting Gender Inclusivity
- 2nd Runner up for Most Innovative Bank
- 1st Runner up overall KBA SFI Awards 2023 Edition.

Tree planting and growing

Absa is keen on environmental conservation, and as part of our Sustainability Agenda, we have a commitment to plant 10 million trees by 2025. Over the past two years, the Bank has planted trees in the southern part of Aberdare Forest and the Mau Complex in partnership with the Kenya Forest Service, local Community Forest Associations and implementing partners such as Worldwide Fund for Nature (WWF). The Bank is also on course to rehabilitate a section of the degraded 100-hectare Sorget Forest in Kericho County.

Target	Actual 2023
800 000	728 095

In 2023, the Bank planted over 100,000 trees at Njukiini Forest in Embu County as part of the World Environment Week, contributed 20,000 bamboo tree seedlings for planting in Kiu Wetland through the State Department of Forestry and provided 10,000 seedlings to support the restoration of Kinale forest. The Bank also celebrated the National Tree Planting Day by launching a Shs 2 million tree-planting initiative that seeks to plant over 30,000 tree seedlings in Kiambu and Makueni counties.

Using our flagship brand initiatives as platforms for enhancing sustainability, Absa and Athletics Kenya partnered with Safaricom, Kenya Forestry Service and Stockholm Environment Institute to plant over 2,500 trees at Kasarani Stadium on the side lines of 2023 Absa Kip Keino Classic tournament and committed to planting 100 trees for every birdie scored at the Magical Kenya Open (MKO) 2023. The Birdies for Trees initiative, which began as Birdies for Good during the 2021 Magical Kenya Open, has raised over Shs 11 million for long-term community development projects and national tree planting initiatives

Further to these tree planting initiatives, Absa signed a Memorandum of Understanding (MOU) with Safaricom and the Kenya Forest Service to adopt more than five degraded public forests across the country in a bid to reafforest them. These forests included Kaptagat Forest, South Kinangop Forest, Njukiini Forest, and Kwa Jomvu Forest, among others. The Bank also launched the 150,000 Mangrove Tree Reforestation Initiative at Jomvu Kuu and Majoreni Forests in Mombasa and Kwale Counties.

Climate-related risk

Absa has developed a climate change strategy to address the Bank's approach to managing climate risks and opportunities. The strategy aims to achieve emission reductions and also create value through sustainable finance opportunities. In addition, the Bank has developed a strategy implementation plan that covers six key aspects, namely governance, strategy, risk management, oversight, reporting and disclosure and capacity building.

Governance and oversight

Governance and oversight of climate-related risks and opportunities are key aspect of addressing climate change. In Absa, these functions have been incorporated into the responsibilities of two existing Board Committees, namely the Board Strategy Committee and Board Audit and Risk Committee. Terms of Reference (ToRs) for these committees have been enhanced to incorporate climate aspects alongside the coordination role of the Sustainability Steering Committee. The Board has also undergone a sensitisation and awareness session on climate risk and its integration into the Bank's strategy.

Climate strategy

Our climate strategy provides guidance on our approach to climate-related risks and opportunities. It enables us to identify climate risk factors and exposures and provide clear guidance on risk-taking, risk mitigation and risk avoidance. Further, the strategy addresses decarbonisation plans with the aim of achieving our Net-Zero ambitions including key assessments required and data that will be tracked. It provides direction on the approach to sustainable finance and climate opportunity mapping including enablers to support stakeholder actions needed to benefit from sustainable finance opportunities.

Some of the actions taken by the Bank include classifying assets within its portfolio into high, medium and low risk and reporting on climate sensitive and high carbon emission sectors. The target is to green at least 10% of the portfolio by 2025. The Bank has identified renewable energy, energy efficiency, climate-smart agriculture and green buildings as priority climate opportunities. Through Absa Group, the Bank has revised its sustainability risk policy within the Environmental and Social Management System (ESMS) to incorporate climate related risk management in the product development lifecycle. Five of our buildings have received EDGE certification as part of the Bank's commitment to be Net-Zero by 2040 (the Group target is 2050). Further, the Bank has conducted training sessions for colleagues, clients and suppliers on climate finance and climate change.

Sustainability risk management

Absa Bank Kenya has completed the implementation of the Group Sustainability Risk Framework, adopting climate risks into its risk management practices. The Bank has revised its strategic sustainability and reputational risk framework, as well as its Sustainability Risk policy and standards. These revisions incorporate a comprehensive methodology to identify climate risks in transactions. Absa Group issued new guidelines for adoption in the revised Sustainability Risk policy which include the revision of exclusion and sector exposure lists and align with the Bank's commitment to address climate risk potential sectors.

Absa has made progress in identifying climate-related risks at the portfolio and transactional levels. This is accomplished through the development and adoption of the Environmental and Social Risk Assessment (ESRA) tool. The tool is a valuable instrument for evaluating climate risks, enabling the Bank to stay within defined limits and adjust strategies as needed. The Bank has revised its ESRA tool to incorporate climate risk exposure metrics. This enhancement ensures that climate risk is systematically factored into the evaluation of the potential impact of loans based on industry best practices.

Absa also initiated the measurement and monitoring of exposure to climate-sensitive sectors, commencing with our 2022 climate report. The Bank successfully implemented an automated environmental and social management system (ESMS) and the tool is used to screen environmental and social risks. Absa has automated its ESMS tool to screen customer loans including a thorough assessment of climate risk exposure. The Bank is able to identify and monitor both high risk and climate sensitive sectors.

A dedicated working group has been established to carry out climate risk stress testing and scenario analysis, in line with our scenario analysis and stress testing framework. The working group has a set execution deadline of December 2024.

Furthermore, the Bank has developed a climate risks business continuity plan (BMC) and internal approvals are ongoing. The Bank is in the process of mapping out operations and major outsourced arrangements to assess their susceptibility to physical, transition, or liability risks stemming from climate change effects. This process is part of the broader business contingency planning, emphasising resilience and adaptability. Reporting on this initiative is expected to commence in 2024.

Absa is currently also on track to develop a climate vulnerability tool for collateral assessment of stranded assets, considering the IFC CAFI tool for enhancement. Building on IFC climate strategy recommendations, Absa is in the process of embedding transitional risks into its policies. This approach, derived from regulatory policies and international best practices, ensures that the Bank stays informed and adaptable in managing transition risks associated with climate change.

The Bank nominated Climate Risk champions in 2022 and trainings are done every quarter to support reporting from business functions.

Reporting and disclosure

Absa's commitment to transparency is evident through the completion of a progress report on the implementation of the approved climate-related risk and opportunity plan.

The Bank revised its sustainability material items to include a heightened focus on climate action. As a result, the Bank elevated SDG 13 on climate action from low to high focus.

Additionally, The Bank has taken proactive steps in defining a structured approach for disclosing material climate-related risks, opportunities, and strategic decisions to all stakeholders, including investors and regulators. The Bank submitted the first Task Force on Climate-related Financial Disclosures (TCFD) report to the Central Bank of Kenya (CBK) by June 30, 2023.

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In a bid to reduce our carbon emissions, the Bank started measuring and disclosing Scope 1 and 2 emissions in our 2022 TCFD report.

The Bank aims to further develop standardised reporting metrics for climate risk and opportunities. Externally, these metrics will be communicated annually through the climate report and internally, on a quarterly basis to the Sustainability Steering Committee.

Capacity building

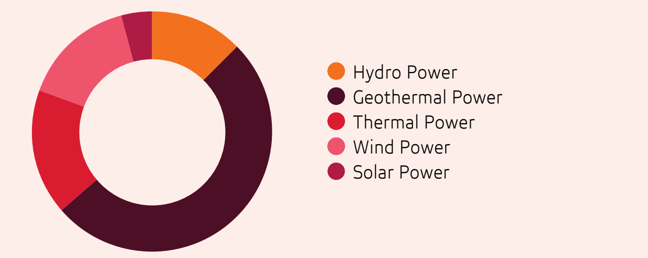
Absa understands the importance of fostering a climate-resilient corporate culture. In 2022, the Bank conducted staff sensitisation on climate risk concepts and expectations. Training on climate risk assessment and opportunities was done through a virtual meeting. Additional training has been facilitated through the Kenya Bankers Association (KBA) Sustainable Finance Initiative curriculum. To further enhance climate resilience, critical staff received training on climate finance, Environment and Social risk assessment tools, and ongoing policy embedment related to climate change.

To ensure continuous learning, Absa has developed e-learning modules on climate-related matters. These modules are accessible through the KBA Sustainable Finance Initiative curriculum, and the Bank is actively working on internal e-learning modules to further educate all colleagues.

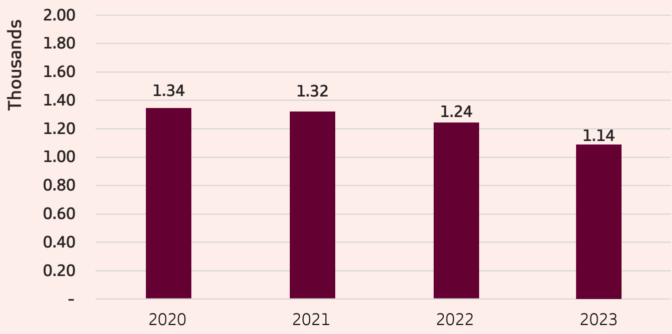
Recognising the importance of internal expertise, Absa identified champions from critical departments and provided training on climate-related matters. These champions are integral members of the Climate Risk and Sustainable Finance working groups, actively contributing to the Bank's climate resilience efforts.

Since October 2022, the Bank has organised customer education and awareness on climate risk and opportunities in partnership with the International Finance Corporation (IFC). In collaboration with the IFC, Absa is actively engaged in developing both capacity and infrastructure for product development. This concerted effort is specifically designed to consider and integrate climate risks and opportunities. Absa has leveraged external expertise by onboarding ESG experts. These experts contribute valuable insights to enhance the Bank's proficiency in climate finance.

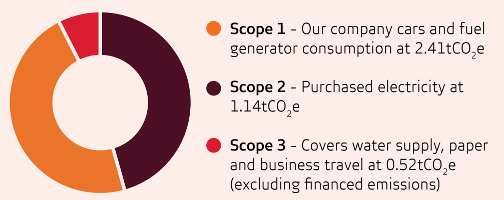
Kenyan Energy Mix 2023 (total 995 million kWh)



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



Tonnes CO_2- equivalent 2023 broken down by type



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 [66]
Chairman

Abdi Mohamed [55]
Managing Director and Chief Executive Officer

Yusuf Omari [49]
Chief Finance Officer

Patricia Ithau [57]
Non-executive Director

Japheth Olende [70]
Non-executive Director

Louis Onyango Otieno [59]
Non-executive Director

Charles Njenga Murito [47]
Non-executive Director

Fulvio Tonelli [63]
Non-executive Director

Christine Sabwa [50]
Non-executive Director

Kedibone Imathiu [42]
Non-executive Director

Wilson Murage [42]
Acting Company Secretary

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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

Abdi Mohamed
Managing Director and Chief Executive Officer
Appointed to Board: 1 May 2023
Committee membership: None

External roles and memberships
- Board Member, Touch Foundation Inc.
- Board Member, Global Compact Network Kenya

Previous roles
- Managing Director, Absa Bank Tanzania Limited
- Acting Managing Executive, Retail and Business Banking Absa Regional Operations
- Chief Operating Officer, Absa Bank Kenya
- Retail and Business Banking Director, Absa Bank Kenya and Absa Zambia
- Operations Efficiency Manager, Barclays Global Retail & Commercial Banking, London

Qualifications
- Bachelor of Commerce (Hons) - Kenyatta University
- Masters Business Administration (MBA) – Edith Cowan University
- Advanced Management Programme (IMD Business School – Switzerland)

Yusuf Omari
Executive Director and Chief Financial Officer
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

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
- Non Executive Director – Palms Residents Group Limited

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 Programme (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 Chairperson: CC
Committee membership: CGNRC

External roles and memberships
- Board Member, Jumbo Chem Company Limited
- Board Member, Ler Ltd
- Executive Director, OBG Company Limited
- Board Member, Kenya Broadcasting Corporation

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
- SC Strategy Committee
- CGNRC Corporate Governance Nominations and Remuneration Committee

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 PLC
- 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: CC, SC

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, SC

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
Committee membership: CC
Director: Absa Asset Management

External roles and memberships
- Managing Partner, Sabwa & Associates
- Board Member, Britam Life Assurance Kenya Limited
- Board Member, Multichoice 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, CGNRC

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, BK Capital Group Ltd
- Non-executive Director, Sekta Group (Pty) Ltd
- Director, Kazi Investments II (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

Wilson K. Murage
Acting Company Secretary
Appointed to the role: 13 October 2023

Previous roles
- Deputy Company Secretary, Absa Bank Kenya
- Legal Advisor and Group Company Secretary, Sameer Group
- Senior Principal Associate, Anjarwalla & Khanna LLP

Qualifications
- LL.M, International Trade and Investments Law, University of Nairobi
- LL.B, University of Nairobi
- Diploma in Law, Kenya School of Law
- Advocate of the High Court of Kenya
- Notary Public
- Commissioner for Oaths
- Practising Certified Public Secretary (Kenya)

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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.

Abdi Mohamed
Managing Director and Chief Executive Officer

Yusuf Omari
Chief Financial Officer

Moses Musyoka-Muthui
Director, Consumer Banking

James Agin
Executive, Corporate and Investment Banking

Christine Mwai-Marandu
Director, Country Credit

Mumbi Kahindo
Director, People and Culture

Chiera Waithaka
Executive, Chief Risk Officer

Ken Kanyarati
Director, Legal and Compliance

Sharon Ingari
Chief Internal Auditor

Elizabeth Wasunna
Director, Business Banking

Julius Kamau
Chief Operating & Digital Officer

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

Corporate Governance Statement

Introduction

In the intricate landscape of today's dynamic business environment, Absa Bank Kenya Plc ("Absa", the "Bank" or the "Company") relies significantly on the pivotal role of corporate governance. At the helm of the Bank, the Board of Directors ("the Board"), as stewards of the Company's integrity and success, believe that effective corporate governance is not merely a procedural formality, but a strategic imperative woven into the very fabric of decision making.

The Board believes in the inextricable link between good corporate governance and strategic decision-making, viewing corporate governance as the framework that empowers and holds individuals accountable for decisions affecting the business, operations, customers, and stakeholders, thus fostering a foundation for the Bank's growth.

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 interest. 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 Act"), 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"), King IV Report on Corporate Governance in South Africa ("King IV Code") and corporate governance best practice.

Charles Muchene

Chairman

Governance Framework

The Governance Framework serves as a comprehensive guide to the Company in navigating the complexities of the financial landscape. It establishes the parameters for ethical conduct, risk management and strategic decision making. It embodies a commitment to transparency, accountability, and the highest standards of corporate integrity.

Through regular assessments, strategic planning, and transparent communication, the Board utilises the governance framework as a compass for decision-making. By aligning their vision with the principles embedded in the framework, the Board cultivates a culture of accountability and responsibility, ultimately steering Absa towards long-term success and resilience in the financial sector.

In the year 2023, the Board reviewed the Governance Framework and found it generally adequate and aligned with the Company's evolving goals and strategy and accordingly, no changes were made.

Governance and the role of the Board

The Directors conscientiously acknowledge and consistently fulfill their fiduciary and general duties demonstrating reasonable skill, care and diligence as stipulated 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.

The Board, in alignment with the Company's Articles of Association and pertinent laws, regulations, and guidelines, has embraced and continues to uphold its Board Charter. The Charter outlines the roles and responsibilities of Directors, providing clear guidance on matters including the composition and size of the Board, the Board nomination process, Directors' terms of office, succession planning, remuneration, and disclosure of interests and conflicts. Subject to an annual review, the Charter ensures consistent alignment with the Company's Governance Framework. During 2023, the Board reviewed the Charter and found it to be adequate within the Company's Governance Framework and accordingly, no major changes were proposed.

In 2023, 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

Election and tenure: Ensuring continuity

Absa is governed by its Board of Directors all of whom except for the Chief Executive Officer and Chief Financial Officer, are elected by the Company's Shareholders. However, in the event of a casual vacancy arising in the Board in between Annual General Meetings, the Board has the power to appoint a Director who will then hold office until the next Annual General Meeting (AGM) where they are re-elected by the Shareholders, as stipulated in the Company's Articles of Association.

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

The Board Charter and the CMA Governance Code further limit the term of office of a Non-Executive Director to nine years, unless the Board determines that any Director should continue in office beyond that period. Where the Board determines that a Non-Executive Director should remain in office beyond the nine-year tenure, the director concerned will be subjected to retirement by rotation at the AGM and his/her candidature supported by the Board to confirm continued independence of mind and appropriate levels of performance. During the year 2023, Dr. Laila Macharia retired from the Board, having successfully completed her nine-year term. The Board has competitively recruited an independent non-executive director to fill the casual vacancy and a regulatory approval is awaited.

In line with the CMA Governance Code, a Non-Executive Director who has reached the age of seventy is also required to retire from the Board unless the Shareholders in an AGM choose to retain them. If retained, the Board Charter requires the Director to offer himself/herself for re-election at an AGM. In the year 2023, Mr Japheth Olende retired having reached the age of seventy and was reappointed as a Director in the Company's AGM held on 25 May 2023 to serve for the remainder of his current term.

Board composition: Fostering diversity, expertise and strategic alignment

Eleven Directors served on the Board in the year 2023 (with Dr. Laila Macharia retiring on 30 September 2023 leaving ten Directors), which is within the minimum of five and maximum of fourteen prescribed by the Company's Articles of Association. The detailed profiles of each director, including their resume, background, areas of expertise and their tenure in office are highlighted on pages 83-84 of the annual report.

During the year, Mr Abdi Mohamed was appointed as the Chief Executive Officer and Managing Director of the Company with effect from 1 May 2023, taking over from Mr Yusuf Omari who held office in an interim capacity.

The size and the composition of the Board, as determined by the Board, is in accordance with the stipulations of the Articles of Association, the Board Charter and relevant laws. The guiding principles in determining the Board's composition include the requirement for a majority of Non-Executive Directors to be free from any relationships or affiliations that could compromise their ability to impartially represent the best interests of the company and its stakeholders and a diverse mix of individuals possessing varied backgrounds, perspectives, skills and experience, as well as traits and attributes.

To ensure director independence, assessments are conducted annually by the Corporate Governance, Nominations & Remuneration Committee ('Nominations Committee'), aligning with the criteria specified in the Board Charter, Prudential Guidelines, CMA Governance Code and best practices. Independent Board members are obliged to confirm annually their sustained independence through an evaluation of the independence criteria. This systematic evaluation enables the Board to gauge its overall level of independence in the execution of its duties. In addition to annual independence assessment, the Board has in place mechanisms for managing actual, potential, or perceived conflicts are detailed under 'Conflict of Interest'.

The evaluation of Directors' independence also scrutinises their capacity to provide an unbiased challenge to management, question assumptions, beliefs, or perspectives, advocate for their own convictions in support of the organisation, engage in constructive questioning and debate, and appropriately scrutinise information and responses provided by management.

Based on the annual declarations of independence and the assessment of Directors' independence, the Board is satisfied that seven (of the eight) Non-Executive Directors (including the Chairman) are independent as defined in regulatory guidelines and that the Company is in compliance with the requirements of the Board Charter, regulatory guidelines and the CMA Governance Code on the minimum proportion of independent Non-Executive Directors on the Board.

Conflict of interest: upholding transparency and integrity

The Directors are expected to steer clear of situations where their personal interests could clash or be perceived as conflicting with those of the Company. Every director is expected to declare any such interests in advance, where they arise in connection with matters to be deliberated on at Board or Committee meetings. In addition, Directors are required to immediately notify the Chairman and Company Secretary of any potential conflicts of interest as soon as they become aware of them. All interest declarations are required to be made in writing, maintained and regularly updated by the Company Secretary in an official register of declared conflicts of interests. At the end of each Board meeting, the Directors review the contents of the register.

Any director with a conflict of interest is expected to abstain from participating in the deliberations and voting on the specific issue. Where a conflict is material or of an ongoing nature, the Board will consider it and may call upon the Director to resign, if necessary, to proactively manage the conflict.

The Directors who acquire shares in the Company are expected to disclose the interest acquired. This enables the Company Secretary to maintain an up-to-date directors' interests register. The table below shows the directors' interests in the Company in the year ended 31 December 2023

Directors' interests in the Company in the year ended 31 December 2023

Director	Number of shares in the Company
Abdi Mohamed	10 000
Yusuf Omari	100 000

Skills, Experience & Diversity: Governance excellence, a catalyst for Success

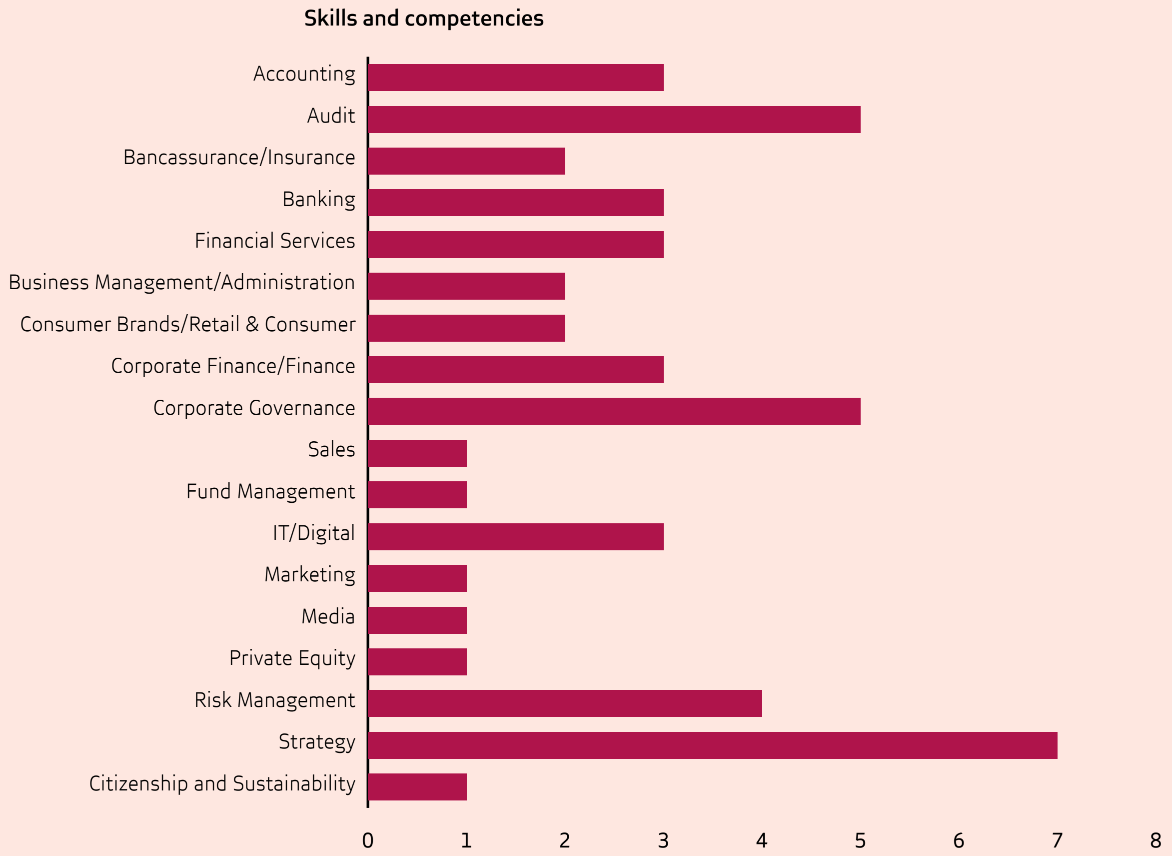
The Board assesses the required blend of skills and expertise required based on the Company's strategy and operational demands. The Company Secretary maintains an up-to-date skills matrix of Board members, continuously refining it to match the evolving and amplified Board proficiencies.

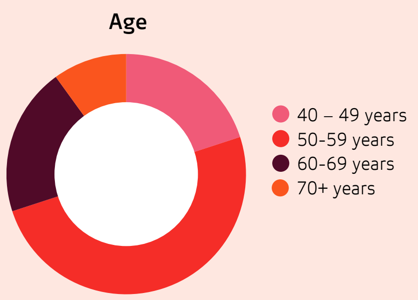
Through the Nominations Committee, the Board conducts a regular, comprehensive evaluation of Board composition and diversity through assessing the size of the Board and Directors skills and experience, analysing diversity across various dimensions such as gender, age, background and professional experience, evaluating how well the Board composition is aligned with the strategy and assessing the balance between Executive, Non-Executive and independent Non-Executive Directors. Diversity is a key principle of the Absa Way Code of Ethics, additional detail on which is given later in this statement.

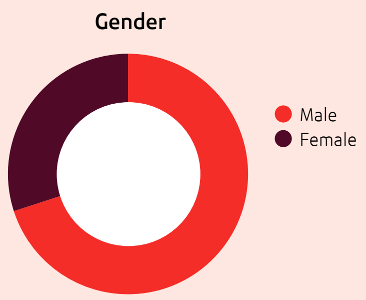
Any deficiencies or gaps identified in the Board's composition serve as focal points for recruitment or development efforts to enhance the Board's effectiveness.

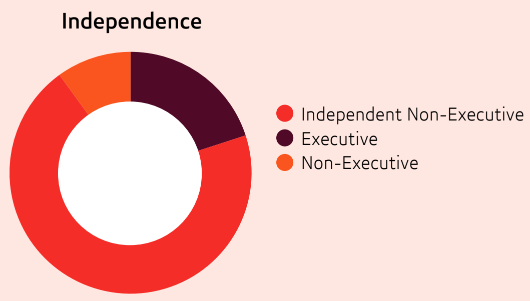
The Board of Directors embodies a rich tapestry of skills, including strategy and corporate governance, finance, audit and accounting, information technology, legal experience, risk management, retail and consumer insights, brand management, marketing, media and digital proficiency as well as experience in private equity, investment banking and fund management. This reflects its commitment to effective governance, strategic insight and inclusive decision making.

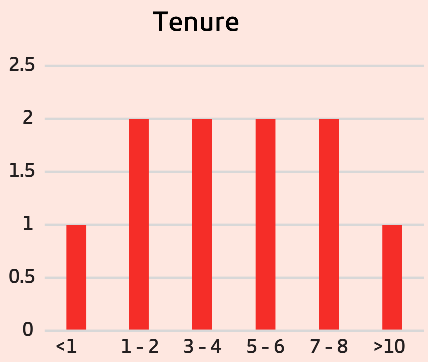
A visual representation of the Board composition is included below:











Board nominations: Ensuring excellence

The Nominations Committee ensures that there is a meticulous process (aligned with the Governance Framework) for selecting Board members, which is a cornerstone of the Company's commitment to excellence and governance. The Nominations Committee outlines precise criteria for selection to align with the Company's strategic goals, ensuring potential candidates' qualifications match its needs. To this end, the Committee makes an assessment and recommendations on the composition of the Board and the desired balance of skills, knowledge, and experience.

In practice, upon request of the Chairman or the Board, the Nominations Committee leverages the extensive networks of the Board or the support of professional consultants, where needed to identify candidates who meet the selection criteria. 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 the ability to plug a significant gap in the skills matrix.

Once identified, the candidates undergo rigorous vetting and thorough assessments, considering professional achievements, ethical standards, diversity and alignment with the Company's culture and mission. 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.

The Nominations Committee then 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, Nominations Committee service and involvement outside Board meetings.

The above process was used to nominate an independent non-executive director to fill the casual vacancy in the Board which arose after Dr. Laila Macharia's retirement.

Directors' induction and continuing education: nurturing leadership excellence

The Company's selection process ensures that the most qualified Directors are appointed to the Board. The Company is committed to ensuring their success by providing adequate resources and guidance for their impactful leadership within the organisation.

The Company has put in place an immersive Board induction programme tailored to equip each new Director with appropriate knowledge, tools, and connections which they need to effectively discharge their duties. All newly appointed Directors participate in the induction programme within the first three months of their appointment. The programme is designed to give Directors an in-depth understanding of the Company's history, vision, and values as well as its business, familiarise them with the Board and governance framework and give them an understanding of their individual roles and expectations.

For instance, the induction program is structured in a manner that allows the new Directors to engage with their fellow Board members, the Managing Director, senior management, and other key personnel and participate in interactive discussions and presentations of all key aspects of the Company's strategy, business activities, areas of focus for the board, risk management, oversight, sustainability initiatives among other pertinent matters. The new directors also receive guidance from the Company Secretary on their responsibilities and liabilities as established by the Companies Act and the Banking Act. The Directors are also provided with a file containing information on the Board and the Company which assist them become effective in the shortest possible time.

The Company understands the pivotal role continuous learning plays for the Directors and has designed an annual Board development plan to empower and equip the leadership with the latest industry trends, legal and regulatory changes, developments in governance, strategic insights and other skills necessary to steer the Company. The plan takes into account Directors' training and development needs identified through their one-on-one engagements with the Chairman and feedback from the annual Board performance evaluation.

The approach to Board development involves engaging Directors in thought-provoking seminars, workshops and curated learning modules facilitated by local and overseas experts in areas of general corporate governance, specific fields relevant to the Bank's operations and those arising from the Board development plan. The Board completed several education sessions during the 2023 financial year details of which are given later in this statement.

Each of the Board Members in office during the 2023 financial year met the minimum of twelve prescribed training hours on governance areas during the year under review.

Access to information and independent advice: empowering informed decision-making

Absa upholds the principle that informed decisions drive success. Accordingly, the Company ensures that Directors have access to comprehensive information and independent advice, fostering a culture of transparency, accountability, and sound governance.

Directors are granted a wealth of Company information necessary to enable them to effectively discharge the obligations imposed on them. This includes financial reports, operational data, market insights and any other pertinent information crucial to understanding the Company's performance, risks, and opportunities. A key aspect of this is providing a comprehensive Board pack that consists of pertinent information, including from each of the key business units ahead of every Board meeting. Through the Managing Director and the Company Secretary, the Board has full and free access to information from the Company's employees.

Recognising the complexity of business decisions, Directors have the autonomy to seek independent advice when necessary to allow them to augment their understanding and perspectives on matters crucial to the Company's interests. In practice, where the Board or its

Committees determine the need for independent professional advice, the Bank through the Company Secretary avails such a resource at its own expense. The Bank ensures confidentiality and respects Directors' autonomy in seeking such advice.

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. Nevertheless, access to information and independent advice is balanced with Directors' oversight responsibilities and fiduciary duties. The emphasis remains on ensuring that the Board makes decisions that are ultimately in the best interests of the Company and its stakeholders. In the year 2023, 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.

Championing sustainability: The Board's commitment to responsible oversight

The Board of Directors plays a critical role in ensuring Absa's commitment to sustainability is upheld and strengthened as an integral part of corporate strategy and governance. This is demonstrated through its continued adherence to the approved sustainability commitment of November 2020 that aligns with the Sustainable Development Goals, the Paris Climate Agreement, and the UN Global Compact Principles among others.

The Board achieves this through actively assessing and approving strategies which embed sustainability into the business model, fostering innovation and resilience. The Board also acknowledges environmental, social and governance risk, guides Management in mitigating these risks and seising opportunities for sustainable growth. The Board also ensures transparent and robust reporting on sustainability performance through the Sustainability Report. The Bank, on 25 October 2023 launched its sustainability report for the financial year 2022 covering from 1 January to 31 December 2022.

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 2022 Sustainability Report, which is available on the Company website (www.absabank.co.ke).

Risk governance: Guiding resilience

Vigilant oversight and strategic guidance are essential in ensuring the Bank's' resilience in the face of increased uncertainty in the post-COVID period and the evolving geo-economic and geo-political shifts. Navigating risks is a collective responsibility and the Board plays a central role in overseeing the risk governance framework.

Given the inherent risk in the Bank's business, adept risk management serves as a cornerstone for executing its strategic plan. The Bank's risk management strategy revolves around safeguarding customers and fostering sustained performance. This is achieved through the Company's Enterprise Risk Management Framework which outlines the Bank's approach to the risk culture, governs how the Bank identifies risk, and informs how the Bank organises and manages its risks. 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 2023 is on pages 29-32 of the annual report.

IT Governance: Empowering innovation and ensuring resilience

The Board recognises the importance of IT governance in the Bank's success, given the rapid evolution of technology shaping the financial services sector. The Bank relies heavily on technology to efficiently serve its customers and stakeholders. As such, the Board is committed to robust IT governance to drive innovation, security and operational efficiency. The Board ensures that an ICT Policy is in place and regularly monitors compliance with the policy. This empowers the Board with effective oversight to ensure that the Bank's IT infrastructure aligns seamlessly with its strategic objectives.

The Board, through the Audit and Risk Committee, receives regular updates on the environment across the technology estate, covering stability, resilience, regulatory change, and transformative digital projects.

During the year, the Board undertook deep dives on the Digital Maturity Strategy and reviewed reports prepared by a special task force on the Digital Maturity Strategy and the Strategy Committee. The Board also approved digital maturity investments that will be undertaken during the medium term plan. The investments that are focused on modernising technology and supportive infrastructure will position the Bank favourably for the digital era while driving scalability and efficiency and enhancing the customer experience.

The Company Secretary

The Company Secretary serves on a full-time basis, offering dedicated practical support to all Board members. In the year, Ms. Loise Gakumo resigned as the Company Secretary with effect from 12 October 2023. The Board appointed the Deputy Company Secretary, Mr. Wilson Murage, as the interim Company Secretary with effect from 13 October 2023, subject to regulatory approval. The interim Company Secretary is a registered practising secretary and is also a member in good standing of the Institute of Certified Secretaries of Kenya (ICS). His profile, qualifications and experience are outlined on page 84 of this report.

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As the custodian of governance, the Company Secretary ensures compliance with legal and regulatory requirements while supporting the effective functioning of the Board. Acting as a key advisor, the Company Secretary facilitates transparent communication among Board members, maintains accurate records and guides the Board in adhering to best practices. In discharging these responsibilities, the Company Secretary is responsible for (among other matters) monitoring compliance with and regular review of the Company's Articles of Association, the Board Charter and procedures, implementing the governance framework, responsible for induction of new Directors and periodic training of Board members, developing the annual Board work plan, facilitating good information flow between the Board and management, assisting with and coordinating the Board Evaluation exercise and the governance audit process, maintaining the register of declared Directors conflicts of interest, maintaining the Board skills matrix and providing administrative support to the Board and Board Committees.

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 and achieves this by managing the Company's business either directly or through the operation of its Committees and delegated authority.

The Board effectively fulfilled several key roles throughout the year in line with the Board Charter through the Annual Board Work plan approved on 28 November 2022. These include: -

(i) approving the Company's strategy and monitoring the implementation of the strategic initiatives as well as strategy enablers;

(ii) considering and approving various significant capital expenditures and investments;

(iii) challenge management's actions and assumptions, monitor and hold management accountable for delegated responsibilities;

(iv) overseeing the risk management framework and its implementation by management while ensuring that management maintain a system of internal control incorporating combined assurance which provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations;

(v) review of succession planning for the management team including overseeing the recruiting, developing, motivating and retention of the right talent; and

(vi) providing oversight over the activities of the subsidiaries of the Company.

Other roles played by the Board are detailed under Board Activity on page 95-96. The Board also created a special task force to manage the recruitment of a Managing Director following the resignation of the former Managing Director in October 2022. A detailed report from the taskforce is provided on page 101.

During the year, the Board competitively recruited and appointed a new Managing Director, Mr. Abdi Mohamed, a Kenyan with over twenty eight years' experience in the financial sector. The Board was excited to welcome Mr. Mohamed back into the Company, where he previously served as Chief Operating Officer and Retail and Business Banking Director for the Company. In appointing Mr. Mohamed, the Board was confident that his leadership experience will be crucial as the organization continues to build on its current momentum to transform into a formidable customer obsessed and sustainable financial services business that positively impacts all its stakeholders.

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 2023. The reports on the activities of each Committee are on page 97-100 of this statement.

The Managing Director bears delegated responsibility for the Company's day to day management and leads the Country Management Committee. The Managing Director holds the responsibility of proposing strategy to the Board, guiding the Country Management Committee and making and executing operational decisions. Once the Board has approved the strategy, it endorses the Medium-Term Plan and annual budget aligned with the strategy. Continuous monitoring of the Managing Director and the Country Management Committee's performance against the approved plans is a consistent practice of the Board.

The Chairman leads the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities including setting its agenda to ensure substantive discussion on strategy, performance and key value issues. In this capacity, he works with Committee chairpersons to ensure that there is alignment and congruence of Committee activities to priorities and responsibilities of the Board. The Chairman, besides fulfilling other roles detailed in the Board Charter, oversees that the Board leads ethically and effectively and that the Board conducts itself in a way that cultivates and exhibits the characteristics of integrity, competence, responsibilities, accountability, fairness and transparency. He encourages collegiality, teamwork and collaboration among Board members and ensures that the Board fulfils its duty for approving and monitoring strategic direction for the business, approving relevant policy and overseeing the organization, and ensuring accountability, which results in ethical culture, good performance, effective control and legitimacy, and long-term sustainability.

The Chairman collaborates with the Managing Director, Chief Financial Officer, and the Company Secretary to guarantee that Directors receive accurate, timely, and clear information about the Company's business and operations to enable the Board to fulfil its obligations effectively.

The roles of the Board Chairman and Managing Director are separate and their responsibilities are clearly set out in the Board Charter and agreed 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 has diligently continued its practice of establishing an annual work plan outlining its scheduled activities for the year. The comprehensive plan serves as a strategic guide which shapes the Board's engagements and focus areas throughout the year.

The annual work plan for 2023 (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 on 28 November 2022.

The Board has a minimum of six scheduled Board meetings in a year while the four standing Board Committees meet at least quarterly and additionally as required. In 2023, the Board held four scheduled quarterly Board and three special Board meetings. In addition, the Board held a two-day board strategy off-site session. There were four scheduled Board trainings in the year focusing on Corporate Governance, emerging trends and developments, Risk Framework, the Kenya Foreign Exchange (FX) Code, Environmental and Social Governance (ESG) training, Board Reporting and Information Flow and a Board Masterclass on regulatory changes and trends in the banking sector and crisis management as a strategic skill for board engagement.

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, upon giving prior notice to the relevant Committee Chair. The Chairman is an optional standing invitee to all meetings of the board's committees that he is not a member of. In the year, the Board held one physical board meeting while the other meetings were held virtually.

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 necessary for Board meetings is a majority of Directors present, whether physically or virtually. The Directors collectively acknowledge that, while each member carries individual responsibility towards the Company, they share joint accountability for the Board's decisions. Despite the Company's Articles of Association granting each Director one vote (with the Chairman having a second or casting vote in case of a tie), the Board typically adopts a consensus-driven approach to decision-making. Should consensus prove elusive during a Board meeting, the Chairman initiates further discussions with the Board. If consensus remains unattainable, the Chairman may explore external advice and other appropriate measures to facilitate a resolution.

In 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 of 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.

The Terms of Reference of the Board Committees are reviewed annually to ensure they remain relevant and aligned to the Company's needs, for enhanced clarity and understanding, to optimise committee functioning and enable the Committees to adapt to emerging risks. In 2023 the Terms of Reference for the Board Committees were reviewed and approved during the Board meeting held on 29 November 2023.

Directors' attendance at scheduled Board and Board Committee meetings in 2023:

Total Number scheduled meetings	Main Board (scheduled)	Main Board (ad hoc)	Audit & Risk Committee	Corporate Governance, Nominations & Remuneration Committee	Credit Committee	Strategy Committee
	4	**3**	**8**	**4**	**4**	**4 (scheduled) 1 (ad hoc)**
Members	**Attended**	**Attended**	**Attended**	**Attended**	**Attended**	**Attended**
Charles Muchene	4	3		4		4 (scheduled) 1 (ad hoc)
Patricia Ithau	4	3	7 (8)	4		
Laila Macharia*	3 (3)	3			2 (3)	3 (3) (scheduled) 1 (ad hoc)
Louis Otieno	4	3	8			4 (scheduled) 1 (ad hoc)
Japheth Olende**	4	3		4	4	
Charles Murito***	4	3		2 (2)	3 (4)	2 (3) (scheduled) 0 (ad hoc)
Fulvio Tonelli	3	3	8		4	4 (scheduled) 1 (ad hoc)
Abdi Mohamed	2 (2)	3				
Yusuf Omari	4	3				
Christine Sabwa****	4	3	8		2 (2)	
Kedibone Imathiu*****	4	3	8	2 (2)		

Numbers in brackets denote the number of meetings which these members were eligible to attend.

* Ms. Laila Macharia stepped down as Chair of Credit Committee and as a member of the Committee on 1 July 2023. She also stepped down as a Member of the Strategy Committee on 30 September 2023.

** Mr. Japheth Olende was appointed as the Chair of the Credit Committee on 1 July 2023.

*** Mr. Charles Murito stepped down as a Member of the Corporate Governance, Nominations & Remuneration Committee on 1 July 2023 and joined the Strategy Committee on 1 July 2023 as a member.

**** Ms. Christine Sabwa joined the Credit Committee on 1 July 2023.

***** Ms. Kedibone Imathiu joined the Corporate Governance, Nominations & Remuneration Committee on 1 July 2023

All the Directors in office at the time of the AGM held on 25 May 2023 attended the annual general meeting.

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 organisation 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 2023 were sustaining growth momentum, prudently managing the business through the complex environment and readying the Bank for the next phase of transformation. The Board's imperatives for achieving Absa's sustained success through the fulfilment of key priorities were oversight over the Company's businesses, review and approval of the strategic objectives and policies of the Company, providing overall strategic direction within a framework of regards and controls and ensuring that Management strikes an appropriate balance between promoting sustainable growth and delivering short-term performance.

The Board achieved this by approving the strategy for the period 2023-2025, approving the Bank's Short-Term Plan (STP), the Medium-Term Plan (MTP) and its Internal Capital Adequacy Assessment Process (ICAAP), regularly reviewing the macroeconomic environment and business performance, regular review and assessment of Directors interests, the conflict register and Board composition, regularly reviewing Management's performance against the approved strategy execution plan and 2024 scorecard, reviewing and approving the Bank's policies, monitoring compliance with internal controls and pertinent laws and regulations, overseeing successful leadership transitions, overseeing the implementation of the Bank's sustainability programme, approving various compliance policies and standards, overseeing the Risk Management Framework and its implementation by Management and considering and approving significant capital expenditure.

Select examples of some of the key decisions made by the Board in 2023 are highlighted below:

a) Approving the strategy for the period 2023-2025 and the revised financial medium term plan;

b) Approving the appointment of Mr. Abdi Mohamed as the Chief Executive Officer and the Managing Director;

c) Approving the Bank's physical expansion plan.

d) Approving the agency banking proposition.

e) Review and approval of the Company's 2024 Strategy Execution plan and Scorecard;

f) Approving the 2022 audited financial statements and recommending a final dividend;

g) Approving an interim dividend during the year;

h) Approving improvements to the Sustainability Framework;

i) Approving amendments to various policies to take into account the changes in law introduced by the Anti-Money Laundering and Combating of Terrorism Financing Laws (Amendment) Act, 2023; and

j) Approving the Digital Maturity Strategy recommended by management and approved by the Strategy Committee.

Board performance

The Board evaluates its performance, that of its Committees and individual Directors every year as required by CBK, the Capital Markets Authority and best practice. The evaluation is facilitated externally after every two years. Boards of Subsidiaries' evaluations are also performed biennially.

In 2023, the Bank engaged an external facilitator, Dorion Associates LLP, to carry out the Board performance evaluation. The 2023 Board evaluation was conducted in December 2023 and was concluded in February 2024. The results were presented to the CBK in March 2024 in line with the regulatory requirements.

The Board evaluation focused on broad parameters of Board Structure and Composition, Board Practices, Procedures of Board meetings, Accountability and Risk Management, Information and Communication and Appropriate Board Room Behaviours. Each Committee was also evaluated based on its own Terms of Reference. Over and above the evaluation of the Board, the Committees and individual members, the Board has also established mechanisms for the evaluation of the Chairman, the Managing Director as well as the Company's Secretary as these are critical positions that directly impact the performance of the Board. The Board evaluation yielded good scores. On 23 February 2024, the Board organised an entire afternoon face to face session moderated by Dorion Associates to discuss the board evaluation report, with the outcome being agreed recommendations for implementation.

Implementation of the recommendations from the 2023 evaluation are being closely monitored by the Nominations Committee.

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.

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Board Committee reports

Christine Sabwa
(Chair)

Committee Members
The Audit and Risk Committee met eight times during the year. The names of the members who were in office during 2023 are listed below and their attendance at meetings has been reported on page 95 of this report.

Christine Sabwa (Chair)

Patricia Ithau

Louis Otieno

Fulvio Tonelli

Kedibone Imathiu

Audit and Risk Committee

I am pleased to present the report of the Audit and Risk 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 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.

In 2023, the Committee received reports on the findings of the internal auditor 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 which is headed by the Chief Internal Auditor who reports directly to the Committee. The Committee also reviewed the Internal Audit Charter and the Annual attestation of Independence in the year. The Committee also approved the 2024 Internal Audit Plan.

During the year the Committee also considered and approved the Bank's Risk Appetite statement, 2023 and the Integrated Planning Report, reviewed the operational risk management policies and risk frameworks, considered the overall status of the statutory and policy compliance by the Company, received a report on the Bank's sustainability programme, considered the Bank's litigation status report, received the Cyber and Technology Control Report, considered and approved the Bank's Recovery plan, reviewed and approved the annual review of the Bank's Business Continuity Plans, reviewed and approved the Enterprise Risk Management Report, received the regular reports on the status of Compliance matters, Anti Money Laundering and Whistle Blowing Report, approved the 2022 sustainability report and received the key control positions report.

The Committee also received and External Auditors', KPMG East Africa Limited, Audit Report together with their findings and recommendations. The Committee also approved KPMG's 2024 External Audit Plan.

Patricia Ithau
(Chair)

Committee Members

The Corporate Governance, Nominations & Remuneration Committee met four times during the year. The names of the members who were in office during 2023 are listed below and their attendance at meetings has been reported on page 95 of this report.

Patricia Ithau (Chair)

Charles Muchene

Japheth Olende

Charles Murito (stepped down on 1 July 2023)

Kedibone Imathiu (joined on 1 July 2023)

Corporate Governance, Nominations and Remuneration Committee

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

Role of the Committee

The Committee's overall strategic objectives are to implement best-in-class governance practices, to procure the best talent for the Board, develop and obtain the highest value from them, to monitor the Bank and its subsidiaries' human resource practices at a strategic level and to 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 resource, remuneration and other succession planning in respect of the executive management. On a biennial basis, the Committee also reviews proposals from Absa Group on the proposed remuneration to be paid to Non-Executive Directors and the Chairman in accordance with the Board. A report of the Directors' Remuneration is presented to the Shareholders in the Annual General Meeting for their approval as required by the Companies Act and is also disclosed in the audited annual financial statements of the Company. The Directors' Remuneration Report is contained in pages 107-111 of this report.

In 2023, the Committee received and reviewed the CMA Assessment Report (2021) and its recommendations and the progress report on the Governance Audit Report (2021).

In line with its mandate, the Committee reviewed the staff performance evaluation and remuneration, noted key vacancies at CMC level and talent management efforts in general and also received a report on reputational matters affecting the Bank. It also received a report on the Finance Act 2023 payroll changes and the effects it had on the employees of the Bank, reviewed and approved the Employee Share Ownership Scheme and reviewed and approved the people function policies. The Committee also approved the 2024 staff salary mandate. The Committee also received and reviewed the board succession plan and the board skills matrix.

The Committee also reviewed a report of the Serving Directors which identified and evaluated the Directors to be recommended to the shareholders for re-election at the 2023 AGM, the renewal of terms of office of non-executive directors, the continuation in service of a director who had reached the statutory retirement age limit and any matters relating to the continuation in office of any director. The Committee also reviewed the Board Skills Matrix, the composition and succession planning of the board of the Bank and its subsidiaries. The Committee received and considered the proposal on renewal of the terms of the subsidiaries' directors. The Committee approved the use of an external Governance expert, Dorion Associates, to carry out the 2023 Board Evaluation. The Committee also reviewed the Board Charter, the Board Committee's Terms of Reference, reviewed and approved the draft 2024 Board calendar. The Committee received progress reports and reviewed the 2022 and 2021 Board Evaluation tracker. During the year, the Committee competitively recruited an independent non-executive director following a vacancy at the Board level.

The Committee received a report of the Legal and Compliance Audit 2022, that was carried out by Bowman Coulson Harney LLP and received the recommendations from the report. In the year, the Committee also reviewed the Board Evaluation Report 2022 together with its action log, reviewed the Board succession plan, received a report on Corporate Governance trends and the Committee's self-assessment report.

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Japheth Olende
(Chair)

Committee Members

The Credit Committee met four times during the year. The names of the members who were in office during 2023 are listed below and their attendance at meetings has been reported on page 95 of this report.

Japheth Olende (appointed as Chairperson on 1 July 2023)

Laila Macharia (stepped down as Chairperson on 1 July 2023 and retired as a Committee Member on 30 September 2023)

Charles Murito

Fulvio Tonelli

Christine Sabwa (Appointed on 1 July 2023).

Credit Committee

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

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 who 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 they are in compliance with regulatory requirements and 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 2023, the Committee approved the quarterly credit reports, reviewed and approved the retail credit paper, reviewed the performance of Absa Business support and Corporate Recoveries Accounts, the Insurance Panel, the Wholesale Credit Policies and noted the business support – write offs. The Committee also approved the Wholesale Credit Committee Terms of Reference.

The Committee approved several policies including the primary credit risk policy, wholesale credit standard, retail credit standards and policies and the retail credit risk standard.

Louis Otieno

(Chair)

Committee Members

The Strategy Committee met five times during the year, having an ad hoc meeting in July 2023. The names of the members who were in office during 2023 are listed below and their attendance at meetings has been reported on page 95 of this report.

Louis Otieno (Chairman)

Charles Muchene

Fulvio Tonelli

Charles Murito (appointed on 1 July 2023)

Laila Macharia (stepped down on 30 September 2023)

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.

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 evaluating 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 Bank 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; 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, reviewed the strategy development process, reviewed the strategy execution risks and mitigations thereof, reviewed execution of the change book of work, reviewed the Committee's 2024 Annual Work Plan, reviewed and considered the financial year forecasts in alignment of strategy to the MTP and 2024 strategy and reviewed the overall progress on the strategy KPIs quarterly.

The Committee also reviewed the strategies for the Bank's subsidiaries and the Company's physical expansion plan.

Louis Otieno

(Chair)

Committee Members

The Committee did not meet during the year. The names of the members who were in office during 2023 are listed below:

Louis Otieno (Chair)

Charles Muchene

Laila Macharia (Stepped down on 30 September 2023)

Christine Sabwa

Japheth Olende (Appointed 1 October 2023)

Patricia Ithau

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 or 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, overseeing the allocation and approval of sufficient resources towards development and testing of the crisis management strategy, policy, and framework, among others.

Charles Muchene

(Chair)

Committee Members

The Task Force met twelve (12) times during the year.

Task Force Members

Charles Muchene (Chair)

Louis Otieno

Patricia Ithau

Dr. Laila Macharia

Report of the Board Task Force on the recruitment of a Managing Director

I am pleased to present my report as the Chair of the Task Force in charge of the recruitment of a Managing Director.

Role of the Task Force and Report

Following the announcement in September 2022 by the previous Managing Director of his intention to resign from his position towards the end of that year, the Board recognised the opportunity to undertake a critical reassessment and re-evaluation of the existing succession plan, to benchmark internal talent against industry and continental standards, to apply global best practices and to deploy proven methodologies and tools in recruiting the next Managing Director.

Working closely with the Absa Group Management, the Board swiftly engaged a reputable external consultant to undertake the recruitment exercise. It also established a Task Force, comprised of Board Members, whose primary objective was to facilitate and oversee the process of identification and onboarding of a suitable individual to assume the role of Managing Director.

The recruitment process commenced with comprehensive engagement sessions involving board members and key stakeholders. These sessions aimed to define the competencies, experiences, personal traits, and drivers requisite of the next Managing Director. Ensuring alignment on the desired profile was crucial to selecting an individual capable of effectively leading the institution through current strategic priorities, navigating an uncertain future, and sustaining growth through and beyond the current strategy horizon.

To ensure transparency and to attract a diverse pool of candidates, the vacancy was advertised internally and externally, both locally and internationally. Using the predefined success criteria, the consultant meticulously evaluated all qualified candidates, employing rigorous assessment processes and various tools. This culminated in the identification of a shortlist comprising four highly qualified candidates, who underwent further evaluation and interviews conducted by the Task Force. Subsequently, using the established success criteria, the Task Force made its final recommendation to the Board.

Throughout the process, the Task Force kept the Board abreast of developments, providing updates at key milestones. Upon receiving the Task Force's recommendation, the Board meticulously scrutinised the process and candidate selection before granting its approval for the appointment in March 2023. Following Board approval, regulatory clearances were obtained, facilitating the assumption of office by the newly appointed Managing Director, Mr. Abdi Mohamed, on 1 May 2023.

In addition to overseeing the recruitment process, the Task Force assumed responsibility for ensuring a seamless transition for the new Managing Director. This entailed overseeing business continuity, facilitating proper onboarding, and introducing the new Managing Director to various stakeholders. Furthermore, the Task Force served as an advisory panel during the initial months of Mr. Mohamed's tenure, providing him with the necessary support and incorporating identified developmental needs into his annual development plan.

Over the course of twelve months, the Task Force held twelve formal meetings, including interviews with candidates and sessions with the new Managing Director. Satisfied with the successful completion of the Task Force's mandate, the Board dissolved it in September 2023, marking the culmination of a diligent and effective succession planning and recruitment process.

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 and its values, which set the expected behavior when engaging with our fellow employees, customers and clients, shareholders, governments, regulators, business partners, suppliers, competitors, the broader community, and how these stakeholders are expected to engage with us. The Code covers personal conduct, integrity, honesty, transparency, accountability, fairness, and 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 has also 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, whistle blower 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.

Whistle blowing
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 which contradict Absa's values. The Company has in place a Whistle Blowing Policy and a whistle-blowing programme that fosters an environment and culture of information sharing without the 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 722 626 (Kenya)

E-mail Communication: protect@tip-offs.com

All Individuals are encouraged to raise any issues involving illegal, unacceptable, or inappropriate behavior 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 whistle-blower.

The Audit and Risk Committee receives reports on Whistleblowing on a regular basis (minimum 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 prior to 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 securities. There were no known insider dealings within the Company during the year.

Other policies
All the Company's policies are reviewed periodically to assess their effectiveness and identify areas of improvement, to ensure that they are aligned with the latest legal requirements, to adapt them to the evolving needs of the Company, to ensure that emerging risks are identified and addressed promptly and for quality assurance.

During the year 2023, a total of over seventy policies and frameworks were reviewed, among them the following notable frameworks and policies. While some remained unchanged, minor changes were made to others to enhance their effectiveness:

- Strategic Sustainability and Reputational Framework
- Sustainability Policy
- ICT Policies (including Technology Risk Policy, Information Security and Cyber Risk Policy, Cloud Computing Policy, Physical Security Risk Policy)
- Conflict of Interest Policy
- Reward (Remuneration) Policy
- Enterprise Risk Management Framework
- Procurement Policy
- Transfer Pricing Policy
- Stakeholder Engagement Policy
- Anti-Money Laundering Policy
- Data Privacy and Protection Policy
- Anti-Bribery and Anti-Corruption 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 to all forms of corruption, bribery, and unethical business practices.

The Board's approach to continuous stakeholder engagement

The Board is committed to balancing the need to maintain commercial success against meeting stakeholder expectations, maintaining the licence to operate, and building and maintaining trust. The Board values continuous stakeholder engagement as a cornerstone of its governance approach and accordingly, prioritises ongoing dialogue and collaboration with stakeholders. Through active engagement, the Board seeks to understand their expectations and respond to them effectively with the aim of promoting transparency and driving sustainable value creation.

Due to the influence and importance of the varying stakeholder groups, the Board must always make balanced decisions. To support 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 Committees as part of its oversight role over sustainability and by collection of investor feedback and communication via the investor relations function. The Corporate Governance Nominations and Remuneration Committee is responsible for communication with stakeholders and handles all aspects of stakeholder engagements. 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.

The Company has implemented its Stakeholder Engagement Policy to guide it in identifying and managing relationships with the key stakeholder groups. The policy outlines the Company's stakeholder engagement principles which include consistency, dialogue collaboration, transparency, commitment, and responsiveness. The policy is available on the Bank's website.

The Board is aware that continuous assessment and monitoring of the Company's stakeholder engagement efforts is critical in ensuring that the Company remains responsive to stakeholder needs and interests. To this end, it has engaged assessment tools such as surveys, client feedback channels, relationship managers, social media, seminars, conferences and one-on-one meetings to collect any relevant feedback from the stakeholders.

To disseminate its own information to the stakeholders, which includes the shareholders, the Company employs diverse channels and mechanisms which include the Company's Annual Integrated Report, its Sustainability Report and availing full year, half-yearly and quarterly financial results on the Company's website and through quarterly investor briefings. On its website and media platforms, the Company disseminates crucial information on its approach to corporate citizenship and significant impact on education and skills.

The Company also provides crucial information on entrepreneurial development, financial inclusion and some of the key challenges facing the society. The website further provides updates and detailed information on what the business is doing in terms of sustainable finance, social, environmental, and economic responsibility as well as governance and reporting.

The Company also 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. Among the significant communications made during the year were the appointment of the Managing Director and the change in the Company Secretary.

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 is 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. By maintaining this balance and ensuring that there is an adequate proportion of independent Non-Executive Directors on all its Committees, the Board structure satisfies the representation of minority shareholders as required by the code.

The Annual General Meeting
The 2023 Annual General Meeting (AGM), held on 25 May 2023 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 1,488 Shareholders attended the AGM representing 74.15% 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 2023 Annual General Meeting were the 2022 audited financial statements, consideration of the final dividend, election of Directors retiring by rotation, those appointed to fill casual vacancies, and those who attained the age of 70, appointment of the Members of the Audit and Risk Committee, Directors' remuneration and appointment and remuneration of the Auditors.

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/. The investor relations program includes liaising with institutional investors, brokers, analysts, and rating agencies including making presentations to them during announcement of 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 coordinates 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 with analysts and institutional investors.

All Shareholders queries, 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 share 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, P. O. Box 8484 00100, Nairobi** or through their e-mail address info@candrgroup.co.ke and also through their telephone numbers **+254 20 869 0360, 0726 971 599, 0737 095 124.**

Audits and assessments

During the year, the Board of Directors commissioned the governance audit to check the level of compliance with sound governance practices. The report and recommendations are under consideration. The Company did not have a Legal and Compliance Audit during the year but continued to resolve the issued raised in the prior audit.

In addition, during the year, CMA assessed the Company's status of implementation of the CMA Governance Code. The assessment report is set out on page 106.

Conclusion

As demonstrated in this statement, during the year, the Board ensured that the Company was managed and operated in line with the corporate governance framework and best corporate governance practices. The Board is committed in ensuring that the Company continues to adhere to, and comply with, the best corporate governance practices, applicable laws, regulations and standards, in order to continue creating long-term value for all stakeholders and fulfil its purpose of Empowering Africa's tomorrow, together, one story at a time.

Legal and compliance audit

The Board of Directors is responsible for establishing a functional framework of internal policies & procedures and monitoring systems to promote compliance with applicable laws, regulations, and standards whilst 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 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 Legal and Compliance Audit for the year ended 31 December 2022 was carried out by Bowmans Coulson Harney and confirmed that the Company was generally compliant with the relevant laws and regulations applicable to its business. During the year, majority of the issues identified in the Audit had been resolved and a few were under resolution within extended timelines, mainly due to dependencies on third parties, such as Lands Registries. None of the issues identified pose a material or substantial financial or legal risk to the bank. The Auditors also reviewed the compliance status of the outstanding matters from the previous legal and compliance audit

The Governance Auditor's Report

The Code of Corporate Governance for Issuers of Securities to the Public, 2015 ("the Code"), requires the Board of a listed Company to subject the Company to an annual Governance Audit to check the level of compliance with sound governance practices.

The Code specifically requires the Annual Governance Audit to be conducted by a competent and recognized professional accredited for that purpose by the Institute of Certified Secretaries (ICS). In compliance with the Code, Absa Bank Kenya Plc. retained Ms. Catherine Musakali of Dorion Associates ("the Auditor") to conduct a Governance Audit of the governance structures, procedures and processes of the Company in order to assure the Board that its goals, structure and operations are consistent with the law, 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. The Code further requires that after undergoing the Governance Audit, the Board should provide an explicit statement on the level of compliance.

The scope of the Audit is derived from the Code, the Companies Act, 2015 and the Governance Audit Tool developed by the ICS. More specifically, the Audit covers the following broad areas;

1. Leadership and strategic management;
2. Transparency and disclosure;
3. Compliance with laws and regulations;
4. Communication with stakeholders;
5. Board independence and governance;
6. Board systems and procedures;
7. Consistent shareholder and stakeholders' value enhancement; and
8. Corporate social responsibility and investment.
9. Sustainability

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 in accordance with best governance practices as envisaged within the legal and regulatory framework. 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 Company's 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 a governance framework that is compliant with the legal and regulatory corporate governance requirements and in this regard, we issue an unqualified opinion.

FCS. Catherine Musakali, ICPSK GA. No 006
Dorion Associates
Green Shades Apartments, Arwings Kodhek Rd., House 1C Nairobi.
Tel No.: +254202353383/+254 722616119
15th April 2024

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 there under with monthly reports made to CMA and material information shared in line with all disclosure requirements in the Capital Markets Act.

During the year, CMA assessed the Company's status of implementation of the CMA Governance Code for the year 2022 based on a review of the following areas:

a) Commitment to Good Corporate Governance (Leadership rating of 95.24 %)

b) Board Operations and Control (Leadership rating of 91.95 %)

c) Rights of Shareholders (Good rating of 86.67%)

d) Stakeholder Relations (Leadership rating of 93.33 %)

e) Ethics and Social Responsibility (Leadership rating of 92.59 %)

f) Accountability, Risk Management, and Internal Control (Leadership rating of 93.33 %)

g) Transparency and Disclosure (Leadership rating of 86.11 %)

The overall rating awarded to the Bank was a leadership rating of 91% 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.

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Governance | Financial review | Shareholder information

Directors' remuneration report

For the year ended 31 December 2023

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 2023 outcomes for the Executive Directors and Non-Executive Directors.

Shareholder engagement

The Directors remuneration report and policy as at 31 December 2022 was explained to, and unanimously approved by shareholders during the 44th Annual General Meeting held on 25 May 2023.

The 2023 Directors Report will be presented to the shareholders for approval during the 45th Annual General Meeting to be held on 16 May 2024.

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 the risk and conduct expectations of the Group. The Banks 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, favouritism 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 strategy, 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. **Support the realisation of our stakeholder aspirations,** with a specific focus on rewarding our employees for the achievement of our strategy within our risk appetite relative to performance and shareholder returns.
2. **Align the long-term interests of our executives and shareholders** by ensuring transparent remuneration outcomes aligned to the value we create in the short, medium and long term. This entails a specific emphasis on the contribution of longer-term incentives for senior and executive employees, which are aligned with market practice.
3. **Attract, retain and engage high-calibre individuals** with the skills, ambition and talent to deliver our strategy.
4. **Drive our culture while taking ownership and accountability** for responsible, sustainable business growth and success. We aim to achieve this by:
   - ensuring that employees share in the Group's success, differentiated based on their contribution, in both the short and long term; and
   - ensuring that our employees' ethical behaviour, values and adherence to our risk management principles are recognised in their performance ratings.
5. **Pay-for-performance by aligning incentive outcomes** to performance and value created. Within this context, we apply deferrals, malus, and clawback provisions to ensure the effective alignment of risk and reward within the context of Group performance outcomes and to discourage inappropriate behaviour.
6. **Deliver fair and responsible remuneration** through regular reviews of remuneration differentials and appropriate decisions that impact our most junior employees. This includes a concerted emphasis on addressing differentials in reward, considering diversity.
7. **Continuously build confidence and trust** in our reward outcomes through high-quality reward governance, engagement in our disclosure with shareholders, and internal transparency and effective communication

Directors' remuneration report (continued)

For the year ended 31 December 2023 (continued)

Our approach to performance management (MyContribution)

Our approach to performance management is an integral part of our short-term planning and strategy execution process. The cascading of the Group strategy across all levels of the organisation improves alignment between business priorities and colleague contributions.

By aligning business priorities, team goals, and individual objectives, we strive for every employee to understand how their daily work contributes to business success, and ultimately the outperformance ambition of the organisation.

In 2023, we continued emphasis on:

- Aligning performance objectives to business priorities;
- Regular performance check-in conversations between employees and managers that create opportunities to discuss performance against objectives; and
- Adopting a coach-focused approach to performance conversations that focus on strengths, development feedback, and actions to improve.

Where performance levels do not meet the requirements, at any time in the year, a performance improvement plan (Back on Track plan) is initiated with a clear intent to assist the employee to substantially remediate performance to the required standards. In addition, ongoing efforts focus on building the skill and capability of employees and managers to meaningfully participate in the performance management process.

Our performance evaluation approach considers both performance against objectives and the demonstration of behaviours aligned to the Absa Way Code of Ethics and, going forward, our Purpose and Values. Leadership teams review, through consistency checks, performance ratings at various levels of the organisation to ensure a fair and equitable process that reflects the performance of the business.

Individual performance is a critical input into short-term incentive decisions, as aligned to our remuneration philosophy, specifically the pay for performance principle. Employees are typically ineligible to receive short-term incentive awards where full-year individual performance falls below expectations.

2023 elements of remuneration

The Absa Group Remuneration Committee made no changes to the Group Remuneration Policy in 2023. 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 2023 remuneration outcomes from a policy perspective, we maintained an emphasis on performance-based variable remuneration as a significant proportion of the total remuneration mix potential for the most senior employees.

We deliver on our strategy and create shareholder value by ensuring retention and high performance of top-quality colleagues. We aim to apply a consistent remuneration framework and structure across the Bank. While targeting a market median position on total remuneration, we may pay above the market median for our top performers and scarce 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 for executives comprises fixed remuneration (total guaranteed package), short-term incentives (cash and deferred awards, where deferral applies) and long-term incentives (where applicable). Deferred awards and long-term incentives are in the form of Absa Group Limited shares.

Long-term incentives

Long-term incentive awards 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 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 or possess scarce and critical skills in terms of long-term, sustainable future performance.

Directors' remuneration report (continued)

For the year ended 31 December 2023 (continued)

Accordingly, our long-term incentive awards consist of the following two structures:

- 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 a minimum individual performance requirement over the vesting period.
- Vesting of awards takes place, subject to achievement of the Group performance targets as described above and continued employment, on the third anniversary of the award date for all participants.

Information subject to audit (Auditable part)

Information subject to audit comprise of amounts of each of Directors' emolument and compensation in the relevant years.

Implementation of remuneration policy for financial year 2023

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

The Appointment dates for the executive directors during the year are as follows:

Name	Date of appointment	Type of contract	Notice period
Abdi Mohamed	1 May 2023	Permanent	Six (6) months
Yusuf Omari	1 June 2009	Permanent	Three (3) months

Remuneration

The total Executive Directors' remuneration adjustments in 2023 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 2022.

Abdi Mohamed, Managing Director (Appointed 1 May 2023)	2023 Shs	2022 Shs
Base Salary	35 946 981	-
Retirement Benefits (Pension Contribution by Employer)	3 594 698	-
Other Employee Benefits	10 997 313	-
Total Fixed Remuneration	50 538 992	-
Cash Bonus Award (Non-deferred)	15 329 834	-
Deferred Bonus/ Cash Value Plan (CVP)	12 670 166	-
Total Variable Remuneration	28 000 000	-
Total Remuneration (Cost to Company)	78 538 992	-

Yusuf Omari, Chief Financial Officer	2023 Shs	2022 Shs
Base Salary	34 057 023	30 190 051
Retirement Benefits (Pension Contribution by Employer)	3 405 702	3 019 005
Other Employee Benefits	9 029 744	7 576 016
Total Fixed Remuneration	46 492 469	40 785 072
Cash Bonus Award (Non-deferred)	17 596 871	15 876 162
Deferred Bonus/ Cash Value Plan (CVP)	9 903 129	8 623 839
Total Variable Remuneration	27 500 000	24 500 001
Total Remuneration (Cost to Company)	73 992 469	65 285 073

Directors' remuneration report (continued)

For the year ended 31 December 2023 (continued)

Implementation of remuneration policy for financial year 2022 (continued)

Long-Term Incentive Plans

Executive Directors	Abdi Mohamed		Yusuf Omari	
	2023 Shs	2022 Shs	2023 Shs	2022 Shs
Share Incentive Plan Retention Award	**-**	-	**-**	7 395 222
Share Incentive Plan Deferred Award	**12 386 699**	-	**8 965 378**	5 923 839
Share Incentive Plan Performance Award	**33 653 378**	-	**26 623 676**	7 395 222
Total emoluments	**46 040 077**	-	**35 589 054**	20 714 283

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 based on an independent review, including a market survey, conducted by the Secretariat at Absa Group Limited and reviewed by the Directors' Affairs Committee. This review, which is undertaken every two years, seeks to ensure that directors' fees continue to be fair and competitive, given the demands that the role places on individual directors. Following the review, Absa Group makes recommendations to the board of Absa Bank Kenya PLC for consideration and approval.

Among other things, the review takes into consideration:

- Benchmark against the fees paid by comparable listed companies in Kenya.
- General levels 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 fees applicable in 2023 came into effect on 1 January 2022 and are next due for review in 2024.

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. In September 2022, the Board established a Task Force on recruitment of a Managing Director. The Task Force met on several occasions between 8 September 2022 and 10 February 2023 and relevant approvals were sought and granted to pay ad-hoc fees to Board members (including the Chairman) during this period.

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:

	2023		2022	
Capacity	**Chairman**	**Member**	Chairman	Member
Board of Directors	**-**	**3 007 100**	-	3 007 100
Audit & Risk Committee	**1 355 200**	**677 600**	1 355 200	677 600
Credit Committee	**935 100**	**467 600**	935 100	467 600
Strategy Committee	**935 100**	**467 600**	935 100	467 600
Corporate Governance, Nominations and Remuneration Committee	**935 100**	**467 600**	935 100	467 600

Directors' remuneration report (continued)

For the year ended 31 December 2023 (continued)

Implementation of remuneration policy for financial year 2022 (continued)

b) Non-executive Directors' fees (continued)

Non-executive Directors	Date of appointment	Total emoluments 2023 Shs	Total emoluments 2022 Shs
Charles Muchene	22 August 2016	**9 938 700**	9 025 700
Laila Macharia	August 2014	**3 830 475**	5 189 040
Patricia Ithau	23 February 2016	**7 264 300**	6 484 300
Louis Otieno	7 March 2018	**7 132 300**	6 484 300
Japheth Olende	7 March 2018	**7 200 550**	6 746 800
Charles Murito	24 June 2020	**4 122 300**	3 942 300
Fulvio Tonelli	1 October 2020	**4 637 433**	4 152 300
Christine Sabwa	9 February 2022	**5 582 100**	4 082 727
Kedibone Imathiu	1 November 2022	**4 098 500**	921 175
Total		**53 806 658**	47 028 642

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 2023 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 18 March 2024.

Charles Muchene
Chairman

Financial review

Report of the Directors
for the year ended 31 December 2023

The directors submit their report together with the audited financial statements for the year ended 31 December 2023 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:

C K Muchene	Chairman
AM Mohamed*	Managing Director (Appointed 1 May 2023)
YK Omari*	Chief Financial Officer
LN Macharia	Retired 30 September 2023
PE Ithau	
JO Olende	
LO Otieno	
C N Murito	
F Tonelli**	
CM Sabwa	
K Imathiu**	

*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	Resigned 12 October 2023
Wilson Murage	Appointed 13 October 2023

Dividend
An interim dividend of Shs 0.20 per share (2022: Shs 0.20 per) was paid during the year amounting to Shs1 086 million (2022: Shs 1 086 million). The directors recommend the approval of a final dividend for the year ended 31 December 2023 of Shs 1.35 per share amounting to Shs 7 333 million to be paid on or about 16 May 2024.

Report of the Directors
for the year ended 31 December 2023

Results/Business review	Group		Bank	
Summary results	**2023 Shs'million**	2022 Shs'million	**2023 Shs'million**	2022 Shs'million
Profit for the year	**16 367**	14 587	**15 376**	13 866
Total comprehensive income	**13 211**	12 554	**12 242**	11 845
Income tax expense	**(7 311)**	(6 262)	**(6 883)**	(5 963)
Dividends declared and paid				
-Interim declared and paid	**1 086**	1 086	**1 086**	1 086
-Final proposed	**7 333**	6 246	**7 333**	6 246
Net assets	**69 195**	63 613	**65 424**	60 811

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 42 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 35.

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 2023 and the date of authorisation of these consolidated annual financial statements.

Auditors
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 18 March 2024.

Company Secretary
Wilson Murage

Statement of Directors' responsibilities

For the year ended 31 December 2023 (continued)

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 123 to 248, which comprise the consolidated and Bank statements of financial position at 31 December 2023 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 material 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® Accounting Standards as issued by International Accounting Standards Board (IFRS Accounting Standards) and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of Consolidated and separate financial statements that are free from material 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® Accounting 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 authorised for issue by the Board of Directors on 18 March 2024.

Charles Muchene
Chairman

Abdi Mohamed
Managing Director

Independent auditor's report

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 123 to 248, which comprise the consolidated and bank statements of financial position as at 31 December 2023, 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, and notes to the consolidated and separate financial statements, including material accounting policies.

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

Basis for opinion

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

Expected credit losses on loans and advances to customers in the consolidated and separate financial statements
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 42.2 – Credit risk

Independent auditor's report

to the members of Absa Bank Kenya PLC

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

Expected credit losses on loans and advances to customers	
The key audit matter	**How the matter was addressed in our audit**
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. We have focussed on the following areas of significant judgement and estimation which required the use of specialists:	Our audit procedures in this area included: • 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.

Independent auditor's report

to the members of Absa Bank Kenya PLC

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

Expected credit losses on loans and advances to customers (continued)	
Modelled ECL impairment losses	**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.	• 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 SICR methodologies and model calibrations and tested the resultant stage allocations and application of cure rules for a sample of individual exposures. For retail exposures, we also tested the performance of the SICR approach by considering historic volumes of accounts moving into arrears and the forward looking view of default risk. • We tested the completeness and accuracy of data inputs into the models by tracing a sample of data inputs such as early watchlist classifications, discount factor, and number of days past due, among others, back to information sourced by management from internal systems.
Estimation and incorporation of multiple forward-looking macroeconomic scenarios and weightings into the ECL calculation	**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.	• 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.

Independent auditor's report

to the members of Absa Bank Kenya PLC

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

Expected credit losses on loans and advances to customers (continued)	
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.
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.

Independent auditor's report

to the members of Absa Bank Kenya PLC

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

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 an audit opinion or 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 Accounting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, 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.

Independent auditor's report

to the members of Absa Bank Kenya PLC

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

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

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group 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 114 and 115 is consistent with the consolidated and separate financial statements; and

(ii) The auditable part of the directors' remuneration report on page 107 to 111 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: 28 March 2024

Consolidated statement of comprehensive income

for the year ended 31 December 2023

	Notes	2023 Shs'million	2022 Shs'million
Interest and similar income	4	**54 263**	40 853
Interest expense and similar charges	5	**(14 219)**	(8 538)
Net interest income		**40 044**	32 315
Fee and commission income	6	**7 876**	6 739
Fee and commission expense	6	**(556)**	(566)
Net fee and commission income		**7 320**	6 173
Net trading income	7	**6 284**	6 838
Other operating income	8	**55**	7
Total income		**53 703**	45 333
Impairment losses on financial instruments	9	**(8 374)**	(5 824)
Net operating income		**45 329**	39 509
Employee benefits	10	**(11 923)**	(10 675)
Infrastructure costs	11	**(1 849)**	(1 055)
Other operating expenses	12	**(6 889)**	(6 047)
Depreciation of property and equipment	25	**(851)**	(756)
Amortisation of intangible assets	26	**(139)**	(127)
Operating expenses		**(21 651)**	(18 660)
Profit before tax		**23 678**	20,849
Income tax expense	13	**(7 311)**	(6 262)
Profit for the year		**16 367**	14 587
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit liability	28	**12**	11
Deferred income tax	29	**(4)**	(3)
		8	8
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	19	**(4 519)**	(2 916)
Deferred income tax	29	**1 355**	875
		(3 164)	(2 041)
Total other comprehensive loss for the year, net of tax		**(3 156)**	(2 033)
Total comprehensive income for the year, net of tax		**13 211**	12 554
Earnings per share			
Basic (Shillings per share)	14	**3.01**	2.69

The notes set out on pages 134 to 248 form an integral part of these consolidated and separate financial statements.

Bank statement of comprehensive income

for the year ended 31 December 2023

	Notes	2023 Shs'million	2022 Shs'million
Interest and similar income	4	**54 218**	40 808
Interest expense and similar charges	5	**(14 470)**	(8 677)
Net interest income		**39 748**	32 131
Fee and commission income	6	**6 384**	5 473
Fee and commission expense	6	**(556)**	(566)
Net fee and commission income		**5 828**	4 907
Net trading income	7	**6 284**	6 838
Other operating income	8	**73**	25
Total income		**51 933**	43 901
Impairment losses on financial instruments	9	**(8 374)**	(5 747)
Net operating income		**43 559**	38 154
Employee benefits	10	**(11 672)**	(10 405)
Infrastructure costs	11	**(1 845)**	(1 054)
Other operating expenses	12	**(6 805)**	(5 994)
Depreciation of property and equipment	25	**(851)**	(756)
Amortisation of intangible assets	26	**(127)**	(116)
Operating expenses		**(21 300)**	(18 325)
Profit before tax		**22 259**	19 829
Income tax expense	13	**(6 883)**	(5 963)
Profit for the year		**15 376**	13 866
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit liability	28	**12**	11
Deferred income tax	29	**(4)**	(3)
		8	8
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	19	**(4 488)**	(2 898)
Deferred income tax	29	**1 346**	869
		(3 142)	(2 029)
Total other comprehensive loss for the year, net of tax		**(3 134)**	(2 021)
Total comprehensive income for the year, net of tax		**12 242**	11 845
Earnings per share			
Basic (Shillings per share)	14	**2.83**	2.55

The notes set out on pages 134 to 248 form an integral part of these consolidated and separate financial statements.

Consolidated statement of financial position

for the year ended 31 December 2023

	Notes	2023 Shs'million	2022 Shs'million
Assets			
Cash and balances with Central Bank of Kenya	15	**29 599**	24 211
Loans and advances to banks	16	**1 721**	4 957
Financial assets at fair value through profit or loss	17	**20 446**	42 905
Derivative financial instruments	18	**3 198**	2 867
Financial assets at fair value through other comprehensive income	19	**73 644**	90 585
Financial assets at amortised cost	20	**1 062**	-
Due from group companies	47	**27 287**	8 881
Loans and advances to customers	21	**335 714**	283 579
Other assets and prepaid expenses	22	**14 333**	9 352
Current income tax	38	**-**	748
Non-current assets held for sale	24	**47**	47
Property and equipment	25	**3 286**	2 629
Other intangible assets	26	**703**	516
Leasehold land	27	**31**	32
Deferred income tax	29	**8 724**	5 925
Total assets		**519 795**	477 234
Equity and liabilities			
Liabilities			
Deposits from banks	30	**11 685**	9 018
Due to Central Bank of Kenya	31	**13 047**	-
Derivative financial instruments	18	**3 250**	1 233
Due to group companies	47	**16 324**	60 798
Deposits from customers	32	**362 749**	303 751
Borrowings	33	**24 024**	19 773
Current income tax	38	**589**	-
Other liabilities and accrued expenses	34	**18 932**	18 927
Retirement benefit liability	28	**-**	121
Total liabilities		**450 600**	413 621
Capital and reserves			
Share capital	35	**2 716**	2 716
Retained earnings	36	**63 637**	55 980
Fair value reserve	36	**(4 758)**	(1 551)
Share-based payment reserve	36	**267**	222
Proposed dividends	49	**7 333**	6 246
Total equity		**69 195**	63 613
Total equity and liabilities		**519 795**	477 234

The financial statements on pages 123 to 133 were approved and authorised for issue by the Board of Directors on 18 March 2024 and signed on its behalf by:

Chairman: Charles Muchene

Managing Director: Abdi Mohamed

Chief Financial Officer: Yusuf Omari

Acting Company Secretary: Wilson Murage

The notes set out on pages 134 to 248 form an integral part of these consolidated and separate financial statements.

Bank statement of financial position

for the year ended 31 December 2023

	Notes	2023 Shs'million	2022 Shs'million
Assets			
Cash and balances with Central Bank of Kenya	15	**29 599**	24 211
Loans and advances to banks	16	**1 721**	4 957
Financial assets at fair value through profit or loss	17	**20 446**	42 905
Derivative financial instruments	18	**3 198**	2 867
Financial assets at fair value through other comprehensive income	19	**73 274**	90 193
Financial assets at amortised cost	20	**1 062**	-
Due from group companies	47	**27 888**	9 191
Loans and advances to customers	21	**335 714**	283 579
Other assets and prepaid expenses	22	**14 285**	9 385
Investment in subsidiaries	23	**463**	463
Current income tax	38	**-**	537
Non-current assets held for sale	24	**47**	47
Property and equipment	25	**3 282**	2 627
Other intangible assets	26	**659**	462
Leasehold land	27	**31**	32
Deferred income tax	29	**8 632**	5 835
Total assets		**520 301**	477 291
Equity and liabilities			
Liabilities			
Deposits from banks	30	**11 685**	9 018
Due to Central Bank of Kenya	31	**13 047**	-
Derivative financial instruments	18	**3 250**	1 233
Due to group companies	47	**16 324**	60 798
Deposits from customers	32	**366 903**	306 663
Borrowings	33	**24 024**	19 773
Current income tax	38	**793**	-
Other liabilities and accrued expenses	34	**18 851**	18 874
Retirement benefit liability	28	**-**	121
Total liabilities		**454 877**	416 480
Capital and reserves			
Share capital	35	**2 716**	2 716
Retained earnings	36	**59 830**	53 164
Fair value reserve	36	**(4 722)**	(1 537)
Share-based payment reserve	36	**267**	222
Proposed dividends	49	**7 333**	6 246
Total equity		**65 424**	60 811
Total equity and liabilities		**520 301**	477 291

The financial statements on pages 123 to 133 were approved and authorised for issue by the Board of Directors on 18 March 2024 and signed on its behalf by:

Chairman: Charles Muchene

Managing Director: Abdi Mohamed

Chief Financial Officer: Yusuf Omari

Acting Company Secretary: Wilson Murage

The notes set out on pages 134 to 248 form an integral part of these consolidated and separate financial statements.

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Consolidated statement of changes in equity

for the year ended 31 December 2023

	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 2022	2 716	394	112	47 251	5 975	56 448
Impairment losses on financial assets at fair value through other comprehensive income	-	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 (Note 49)	-	-	-	(6 246)	6 246	-
Balance at 31 December 2022	2 716	(1 551)	222	55 980	6 246	63 613
Balance at 1 January 2023	**2 716**	**(1 551)**	**222**	**55 980**	**6 246**	**63 613**
Profit for the year	**-**			**16 367**	**-**	**16 367**
Other comprehensive loss for the year	**-**	**(3 164)**	**-**	**8**	**-**	**(3 156)**
Total comprehensive income for the year	**-**	**(3 164)**	**-**	**16 375**	**-**	**13 211**
Net changes in impairment losses on financial assets at fair value through other comprehensive income (Note 9)	**-**	**(43)**	**-**	**-**	**-**	**(43)**
Recognition of share-based payments	**-**	**-**	**45**	**-**	**-**	**45**
Final dividend for 2022 paid	**-**	**-**	**-**	**-**	**(6 246)**	**(6 246)**
Interim dividend paid	**-**	**-**	**-**	**(1 086)**	**-**	**(1 086)**
Dividend waiver	**-**	**-**	**-**	**(299)**	**-**	**(299)**
Proposed final dividend 2023 (Note 49)	**-**	**-**	**-**	**(7 333)**	**7 333**	**-**
Balance at 31 December 2023	**2 716**	**(4 758)**	**267**	**63 637**	**7 333**	**69 195**

The notes set out on pages 134 to 248 form an integral part of these consolidated and separate financial statements.

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Bank statement of changes in equity

for the year ended 31 December 2023

	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 2022	2 716	396	112	45 156	5 975	54 355
Impairment losses on financial assets at fair value through other comprehensive income	-	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 (Note 49)	-	-	-	(6 246)	6 246	-
Balance at 31 December 2022	2 716	(1 537)	222	53 164	6 246	60 811
Balance at 1 January 2023	**2 716**	**(1 537)**	**222**	**53 164**	**6 246**	**60 811**
Profit for the year				**15 376**		**15 376**
Other comprehensive loss for the year		**(3 142)**		**8**		**(3 134)**
Total comprehensive income for the year	**-**	**(3 142)**	**-**	**15 384**	**-**	**12 242**
Net changes in impairment losses on financial assets at fair value through other comprehensive income (Note 9)	**-**	**(43)**	**-**			**(43)**
Recognition of share-based payments	**-**	**-**	**45**	**-**	**-**	**45**
Final dividend for 2022 paid	**-**	**-**	**-**	**-**	**(6 246)**	**(6 246)**
Interim dividend paid	**-**	**-**	**-**	**(1 086)**	**-**	**(1 086)**
Dividend waiver	**-**	**-**	**-**	**(299)**	**-**	**(299)**
Proposed final dividend 2023 (Note 49)	**-**	**-**	**-**	**(7 333)**	**7 333**	**-**
Balance at 31 December 2023	**2 716**	**(4 722)**	**267**	**59 830**	**7 333**	**65 424**

The notes set out on pages 134 to 248 form an integral part of these consolidated and separate financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2023

	Notes	2023 Shs'million	Restated 2022 Shs'million
Cash flows from operating activities			
Cash used in operations	37	**(16 224)**	(20 575)
Interest received		**48 624**	36 732
Interest paid		**(11 335)**	(6 469)
Income taxes paid	38	**(7 422)**	(9 846)
Net cash generated from/(used) in operating activities		**13 643**	(158)
Cash flows from investing activities			
Purchase of property and equipment	25	**(320)**	(456)
Purchase of intangible assets	26	**(326)**	(149)
Net cash used in investing activities		**(646)**	(605)
Cash flows from financing activities			
Proceeds from borrowings	33	**-**	10 419
Repayments of borrowings	33	**(300)**	(51)
Repayment of principal portion of lease liabilities	34	**(376)**	(410)
Dividends paid to owners of the company	39	**(7 332)**	(5 595)
Net cash (used in) /generated from financing activities		**(8 008)**	4 363
Net increase in cash and cash equivalents		**4 989**	3 600
Cash and cash equivalents at the beginning of the year		**25 531**	21 766
Effect of exchange rate fluctuations on cash and cash equivalents held		**34**	165
Cash and cash equivalents at the end of the year[1]	40	**30 554**	25 531

The notes set out on pages 134 to 248 form an integral part of these consolidated and separate financial statements.

[1]Prior year numbers have been restated, refer to note 2.26.1 for further details.

Bank statement of cash flows

for the year ended 31 December 2023

	Notes	2023 Shs'million	Restated 2022 Shs'million
Cash flows from operating activities			
Cash used in operations	37	**(16 346)**	(20 628)
Interest received		**48 579**	36 703
Interest paid		**(11 586)**	(6 608)
Income taxes paid	38	**(7 008)**	(9 542)
Net cash generated from/(used) in operating activities		**13 639**	(75)
Cash flows from investing activities			
Purchase of property and equipment	25	**(318)**	(455)
Purchase of intangible assets	26	**(324)**	(147)
Net cash used in investing activities		**(642)**	(602)
Cash flows from financing activities			
Proceeds from borrowings	33	**-**	10 419
Repayments of borrowings	33	**(300)**	(51)
Repayment of principal portion of lease liabilities	34	**(376)**	(410)
Dividends paid to owners of the company	39	**(7 332)**	(5 595)
Net cash (used in) /generated from financing activities		**(8 008)**	4 363
Net increase in cash and cash equivalents		**4 989**	3 686
Cash and cash equivalents at the beginning of the year		**25 531**	21 680
Effect of exchange rate fluctuations on cash and cash equivalents held		**34**	165
Cash and cash equivalents at the end of the year[1]	40	**30 554**	25 531

The notes set out on pages 134 to 248 form an integral part of these consolidated and separate financial statements.

[1]Prior year numbers have been restated, refer to note 2.26.1 for further details.

Notes to the annual financial statements

for the year ended 31 December 2023

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® Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) and the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRS Accounting Standards) 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® Accounting 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. Material accounting policies

The material 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 2023. For details of the new and revised accounting policies refer to note 51.

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® Accounting 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 43.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when IFRS® Accounting Standards netting criteria has been met.

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Notes to the annual financial statements

for the year ended 31 December 2023

2. Material accounting policies (continued)

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 and consistent accounting policies are used throughout the group for the purposes of the consolidation.

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.

Notes to the annual financial statements

for the year ended 31 December 2023

2. Material accounting policies (continued)

2.5 Revenue recognition

Net interest income

Effective interest on loans and advances at amortised cost, financial assets 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.

Net trading income

Trading positions and assets or liabilities in the trading portfolio 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.

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 which are expensed as the services are received.

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.

Notes to the annual financial statements

for the year ended 31 December 2023

2. Material accounting policies (continued)

2.6 Foreign currencies (continued)

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 current service cost, interest on net defined benefit liability or asset, past service cost settlements are recognised in profit or loss.

All actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling are recognised through other comprehensive income 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.

Remeasurements of the net defined benefit liability (or asset, as the case may be) 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 benefit 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.

Notes to the annual financial statements
for the year ended 31 December 2023

2. Material 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.

The accounting treatment under IFRS 2, as determined to be required in the separate financial statements of the Group, applies regardless of any intra-group recharge arrangements that might be in place. Any recharge arrangements are accounted for separately from the share-based payment as an adjustment to the increase in equity recognised in respect of the share-based payment (as described above).

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. Refer to note 34 for the carrying amount of liabilities arising from cash-settled arrangements.

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 allowable tax 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.

Notes to the annual financial statements
for the year ended 31 December 2023

2. Material accounting policies (continued)

2.9 Taxation (continued)

***Deferred taxation* (continued)**

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.

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.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

Notes to the annual financial statements

for the year ended 31 December 2023

2. Material accounting policies (continued)

2.10 Property and equipment (continued)

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.

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

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.

Useful lives of Intangible assets	Useful lives Years
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)

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. 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.

Notes to the annual financial statements

for the year ended 31 December 2023

2. Material accounting policies (continued)

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.

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.

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).

Notes to the annual financial statements

for the year ended 31 December 2023

2. Material accounting policies (continued)

2.14 Financial instruments (continued)

2.14.2 Day one profits or losses (continued)

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):

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 Classification and measurement of financial instruments

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.
- 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.

Notes to the annual financial statements

for the year ended 31 December 2023

2. Material accounting policies (continued)

2.14 Financial instruments (continued)

2.14.3 Classification and measurement of financial instruments (continued)

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.

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	
		Due to Central Bank of Kenya	
		Deposits from customers	
		Borrowings	
		Due to group companies	
		Other liabilities and accrued expense	
	Fair value through profit or loss	Financial liabilities at fair value through profit or loss	Derivative liabilities
Off-balance sheet financial instruments	Loan commitments		
	Guarantees, acceptances and other financial liabilities		

Notes to the annual financial statements
for the year ended 31 December 2023

2. Material accounting policies (continued)

2.14 Financial instruments (continued)

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.

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.

Notes to the annual financial statements
for the year ended 31 December 2023

2. Material accounting policies (continued)

2.14 Financial instruments (continued)

2.14.4 Expected credit losses on financial assets (continued)

Three-stage approach to ECL (continued)

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.

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.

Notes to the annual financial statements

for the year ended 31 December 2023

2. Material accounting policies (continued)

2.14 Financial instruments (continued)

2.14.4 Expected credit losses on financial assets (continued)

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.

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Notes to the annual financial statements
for the year ended 31 December 2023

2. Material accounting policies (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.

Notes to the annual financial statements

for the year ended 31 December 2023

2. Material accounting policies (continued)

2.14 Financial instruments (continued)

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.

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® Accounting 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 Repurchase and reverse repurchase agreements

Reverse repurchase agreements (and stock borrowing or similar transactions) are a form of secured lending whereby the Group provides a loan or cash collateral in exchange for the transfer of collateral, generally in the form of marketable securities subject to an agreement to transfer the securities back at a fixed price in the future. Repurchase agreements are where the Group obtains such loans or cash collateral, in exchange for the transfer of collateral.

The Group purchases securities (under a reverse repurchase agreement) or borrows securities subject to a commitment to resell or return them. The securities are not included on the statement of financial position as the Group does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan asset. The Group may also sell securities (under a repurchase agreement) or lend securities subject to a commitment to repurchase or redeem them. The securities are retained on the statement of financial position since the Group retains substantially all the risks and rewards of ownership. Consideration received (or cash collateral provided) is accounted for as a financial liability.

2.16 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.

Notes to the annual financial statements

for the year ended 31 December 2023

2. Material accounting policies (continued)

2.16 Letters of credit acceptances (continued)

(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.

2.17 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.

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.

Notes to the annual financial statements
for the year ended 31 December 2023

2. Material accounting policies (continued)

2.17 Fair value (continued)

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.

2.18 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.

2.19 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.

2.20 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), deposits due from banking institutions and mobile money wallets. 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. Repurchase and reverse repurchase agreements are not considered to be part of cash equivalents.

2.21 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.

2.22 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.

2.23 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.

2.24 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

Where the Group is a lessee, a right-of-use asset and corresponding lease liability are recognised at the lease commencement date. The right-of-use asset is initially and subsequently measured at cost with depreciation recognised on a straight-line basis over the lease term. The right of use asset is included within "property and equipment" in the statement of financial position.

The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease, if readily determinable, or the lessee's incremental borrowing rate. After the commencement date, a lessee shall measure the lease liability by increasing the carrying amount to reflect interest on the lease liability determined and reducing the carrying amount to reflect the lease payments made.

Notes to the annual financial statements
for the year ended 31 December 2023

2. Material accounting policies (continued)

2.24 Leases (continued)

(a) The Group is the lessee (continued)

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.

2.25 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.

2.26 Reporting changes overview

The financial reporting changes that have had an impact on the Group's results for the comparative periods ended 31 December 2023 include:

2.26.1 Correction of prior period error

The Bank operates mobile money platforms and maintains a mobile money wallet with telecommunication companies. These mobile money balances meet the definition of cash and cash equivalents per IAS 7, Statement of Cash Flows ("IAS 7"). However, these balances were incorrectly excluded from cash and cash equivalents in previous reporting periods. As a result, the Statement of Cash Flows has been restated. The restatement does not have an impact on profit or loss, equity or the statement of financial position. The impact of the above restatement is as follows:

Statement of cash flows	As previously reported Shs'million	Mobile Money Platforms Shs'million	Restated balance Shs'million
Group			
Cash and cash equivalents – opening balance	15 937	5 829	21 766
Cash and cash equivalents – closing balance	20 340	5 191	25 531
Net decrease/(increase/ (decrease) in other assets	347	(638)	(291)
Net cash generated from/(used) in operating activities	480	(638)	(158)
Bank			
Cash and cash equivalents – opening balance	15 851	5 829	21 680
Cash and cash equivalents – closing balance	20 340	5 191	25 531
Net decrease/(increase/ (decrease) in other assets	499	(638)	(139)
Net ash generated from/(used) in operating activities	563	(638)	(75)

Notes to the annual financial statements

for the year ended 31 December 2023

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:

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 maximised. 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 categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised 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.

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.

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.

Notes to the annual financial statements

for the year ended 31 December 2023

3. Judgements and estimates (continued)

3.1 Fair value of financial instruments (continued)

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 44.

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 48 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 36 includes details of the Group's share awards. Refer to note 36.3 for the carrying amount of liabilities arising from cash-settled arrangements.

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.

Notes to the annual financial statements

for the year ended 31 December 2023

3. Judgements and estimates (continued)

3.5 Income taxes (continued)

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 recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be 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, 29, 38 and 48.3 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.

Notes to the annual financial statements

for the year ended 31 December 2023

3. Judgements and estimates (continued)

3.6 Retirement benefits (continued)

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 28 for the specific assumptions used and carrying amounts of retirement benefits.

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 25 and 26 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 42: 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 2023

4. Interest and similar income	Group 2023 Shs'million	Group 2022 Shs'million	Bank 2023 Shs'million	Bank 2022 Shs'million
Financial assets held at fair value through OCI	**9 124**	9 421	**9 079**	9 376
Financial assets held at amortised cost	**54**	-	**54**	-
Loans and advances to banks and group companies	**832**	751	**832**	751
Loans and advances to customers	**44 253**	30 681	**44 253**	30 681
Total interest and similar income	**54 263**	40 853	**54 218**	40 808

5. Interest expense and similar charges	Group 2023 Shs'million	Group 2022 Shs'million	Bank 2023 Shs'million	Bank 2022 Shs'million
Deposits from banks and group companies	**(304)**	(965)	**(304)**	(965)
Customer accounts	**(11 876)**	(6 976)	**(12 127)**	(7 115)
Subordinated debt and other borrowed funds	**(1 868)**	(483)	**(1 868)**	(483)
Interest expense on lease liabilities (Note 34.2)	**(171)**	(114)	**(171)**	(114)
Total interest and similar expense	**(14 219)**	(8 538)	**(14 470)**	(8 677)

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.

	2023			2022		
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	**683**	**4 390**	**5 073**	586	3 687	4 273
Credit related fee and commissions	**1 014**	**529**	**1 543**	899	484	1 383
Insurance agency commissions	**-**	**1 260**	**1 260**	-	1 083	1 083
Fee and commission income	**1 697**	**6 179**	**7 876**	1 485	5 254	6 739
Fee and commission expense						
Fee and commission expense	**(164)**	**(392)**	**(556)**	(151)	(415)	(566)
Net fee and commission income	**1 533**	**5 787**	**7 320**	1 334	4 839	6 173
Bank						
Fee and commission income						
Service fees	**648**	**4 193**	**4 841**	553	3 537	4 090
Credit related fee and commissions	**1 014**	**529**	**1 543**	899	484	1 383
Fee and commission income	**1 662**	**4 722**	**6 384**	1 452	4 021	5 473
Fee and commission expense						
Fee and commission expense	**(164)**	**(392)**	**(556)**	(151)	(415)	(566)
Net fee and commission income	**1 498**	**4 330**	**5 828**	1 301	3 606	4 907

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 take place.

Notes to the annual financial statements

for the year ended 31 December 2023

7. Net trading income	2023 Shs'million	2022 Shs'million
Debt securities	**(226)**	192
Foreign exchange	**6 510**	6 646
Net trading income	**6 284**	6 838

Debt securities (expense)/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 2023 Shs'million	Group 2022 Shs'million	Bank 2023 Shs'million	Bank 2022 Shs'million
Rental income	**33**	46	**33**	46
Sundry income	**22**	(39)	**40**	(21)
Total other operating income	**55**	7	**73**	25

The sundry income relates to income not earned in the normal course of business.

9. Impairment losses on financial instruments

Group 2023	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Total impairment loss	**(963)**	**(701)**	**(6 710)**	**(8 374)**
		Collectively assessed		
Loans and advances to customers	**(667)**	**(616)**	**(5 218)**	**(6 501)**
Recoveries of loans and advances	**-**	**-**	**753**	**753**
Total impairment loss	**(667)**	**(616)**	**(4 465)**	**(5 748)**
		Individually assessed		
Cash and balances with Central Bank of Kenya	**2**	**-**	**-**	**2**
Loans and advances to customers	**(376)**	**(107)**	**(2 252)**	**(2 735)**
Debt instruments measured at FVOCI	**43**	**-**	**-**	**43**
Financial guarantees & letters of credit	**47**	**19**	**6**	**72**
Other undrawn commitments	**(12)**	**3**	**-**	**(9)**
	(296)	**(85)**	**(2 246)**	**(2 627)**
Recoveries of loans and advances	**-**	**-**	**1**	**1**
Total impairment loss	**(296)**	**(85)**	**(2 245)**	**(2 626)**

Notes to the annual financial statements
for the year ended 31 December 2023

9. Impairment losses on financial instruments

2022	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Total impairment loss	113	(264)	(5 673)	(5 824)
		Collectively assessed		
Loans and advances to customers	405	(305)	(4 724)	(4 624)
Recoveries of loans and advances	-	-	528	528
	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)

Bank 2023	**Stage 1 Shs'million**	**Stage 2 Shs'million**	**Stage 3 Shs'million**	**Total Shs'million**
Total impairment loss	**(963)**	**(701)**	**(6 710)**	**(8 373)**
		Collectively assessed		
Loans and advances to customers	**(667)**	**(616)**	**(5 218)**	**(6 501)**
Recoveries of loans and advances	**–**	**–**	**753**	**753**
Total impairment loss	**(667)**	**(616)**	**(4 465)**	**(5 748)**
		Individually assessed		
Cash and balances with Central Bank of Kenya	**2**	**–**	**–**	**2**
Loans and advances to customers	**(376)**	**(107)**	**(2 252)**	**(2 735)**
Debt instruments measured at FVOCI	**43**	**–**	**–**	**43**
Financial guarantees and letters of credit	**47**	**19**	**6**	**72**
Other undrawn commitments	**(12)**	**3**	**–**	**(9)**
	(296)	**(85)**	**(2 246)**	**(2 627)**
Recoveries of loans and advances	**–**	**–**	**1**	**1**
Total impairment loss	**(296)**	**(85)**	**(2 245)**	**(2 626)**

Notes to the annual financial statements
for the year ended 31 December 2023

9. Impairment losses on financial instruments

2022	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Total impairment loss	190	(264)	(5 673)	(5 747)
		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)

	Group		Bank	
10. Employee benefits	**2023 Shs'million**	2022 Shs'million	**2023 Shs'million**	2022 Shs'million
Salaries and allowances	**(9 433)**	(8 381)	**(9 227)**	(8 214)
Share-based payments (Note 10.1)	**(194)**	(179)	**(194)**	(179)
Training costs	**(68)**	(83)	**(67)**	(82)
Staff medical costs	**(605)**	(549)	**(596)**	(544)
Post-employment benefits:				
Defined contribution benefits scheme	**(702)**	(676)	**(688)**	(664)
Defined benefit plan (Note 28.1)	**(35)**	(55)	**(35)**	(55)
Social security cost	**(31)**	(6)	**(30)**	(6)
Other	**(855)**	(746)	**(835)**	(661)
Total employee benefits	**(11 923)**	(10 675)	**(11 672)**	(10 405)

Other includes temporary staff salaries and fringe benefit tax

Average number of employees during the year	**2 130**	2 070	**2 130**	2 070
Average number of direct sales during the year	**590**	593	**590**	593

Notes to the annual financial statements

for the year ended 31 December 2023

10. Employee benefits (continued)

10.1 Deferred cash and share-based payments	Group and Bank 2023 Shs'million	2022 Shs'million
The statement of comprehensive income charge for share-based payments comprises the following:		
Equity-settled arrangements	**(56)**	(110)
Cash-settled arrangements:		
Absa Group Limited Cash Value Plan ("CVP")	**(138)**	(69)
Total deferred cash and share-based payments	**(194)**	(179)

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 2023 Shs'million	Group 2022 Shs'million	Bank 2023 Shs'million	Bank 2022 Shs'million
Property cost	**(301)**	(264)	**(301)**	(264)
Information technology	**(1 420)**	(677)	**(1 417)**	(677)
Other infrastructure costs	**(128)**	(114)	**(127)**	(113)
	(1 849)	(1 055)	**(1 845)**	(1 054)

12. Other operating expenses	Group 2023	Group 2022	Bank 2023	Bank 2022
Auditor's remuneration:				
Local statutory audit	**(26)**	(23)	**(24)**	(21)
Information systems technology audit	**(9)**	(8)	**(9)**	(8)
	(35)	(31)	**(33)**	(29)
Consultancy, legal and professional fees	**(722)**	(178)	**(691)**	(169)
Subscription, publications, stationery and communications	**(717)**	(677)	**(700)**	(658)
Marketing, advertising and sponsorship	**(643)**	(516)	**(640)**	(516)
Travel and accommodation	**(265)**	(169)	**(260)**	(165)
Cash transportation	**(384)**	(226)	**(384)**	(226)
Security costs	**(183)**	(184)	**(183)**	(184)
	(2 914)	(1 950)	**(2 858)**	(1 918)
Other operating expenses	**(3 940)**	(4 066)	**(3 914)**	(4 047)
Total other operating expenses	**(6 889)**	(6 047)	**(6 805)**	(5 994)

Other operating expenses mainly consists of group recharges (Note 47), insurance costs and motor vehicle expenses.

Notes to the annual financial statements

for the year ended 31 December 2023

13. Income taxes

13.1 Income tax recognised in profit or loss	Group 2023 Shs'million	Group 2022 Shs'million	Bank 2023 Shs'million	Bank 2022 Shs'million
Current income tax	**(8 498)**	(6 556)	**(8 075)**	(6 223)
Current income tax - prior year adjustments	**(261)**	(21)	**(263)**	(32)
Total current income tax	**(8 759)**	(6 577)	**(8 338)**	(6 255)
Deferred income tax (Note 29)				
Current year credit	**1 469**	315	**1 476**	292
Deferred income tax – prior year adjustments	**(21)**	-	**(21)**	-
Total deferred income tax	**1 448**	315	**1 455**	292
Total income tax expense for the year	**(7 311)**	(6 262)	**(6 883)**	(5 963)
The effective tax rate for the year ended 31 December 2023 is 30.9% (2022: 30.1%)				
Profit for the year	**23 678**	20 849	**22 259**	19 829
Income tax expense calculated at 30% (2022: 30%)	**7 103**	6 255	**6 678**	5 949
Current income tax – prior year adjustment	**261**	21	**263**	32
Deferred income tax – prior year adjustments	**21**	-	**21**	-
Effect of income that is exempt from taxation	**(470)**	(337)	**(470)**	(327)
Effect of expenses that are not deductible in determining taxable profit	**396**	323	**391**	309
Income tax expense recognised in profit or loss	**7 311**	6 262	**6 883**	5 963

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.

14. Earnings per share	Group 2023 Shs'million	Group 2022 Shs'million	Bank 2023 Shs'million	Bank 2022 Shs'million
Net profit attributable to shareholders	**16 367**	14 587	**15 376**	13 866
Number of ordinary shares in issue	**5 432**	5 432	**5 432**	5 432
Basic earnings per share	**3.01**	2.69	**2.83**	2.55

There were no potentially dilutive shares outstanding as at 31 December 2023 or 2022. Diluted earnings per share are therefore the same as basic earnings per share.

15. Cash and balances with Central Bank of Kenya	Group and Bank 2023 Shs'million	2022 Shs'million
Cash in hand	**12 692**	11 464
Balances with Central Bank of Kenya (CBK)	**16 910**	12 752
Impairment losses	**(3)**	(5)
	29 599	24 211

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 2023, 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.

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		Group and Bank	
16.	**Loans and advances to banks**	**2023 Shs'million**	2022 Shs'million
	Loans and advances to banks	**1 724**	4 960
	Impairment losses	**(3)**	(3)
		1 721	4 957

The weighted average effective interest rate on deposits and balances due from banking institutions at 31 December 2023 was 5% (2022: 4.4%). 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 40.

		Group and Bank	
17.	**Financial assets at fair value through profit or loss**	**2023 Shs'million**	2022 Shs'million
	Debt securities: Government treasury bills and bonds	**20 446**	42 905

Included in financial assets at fair value through profit or loss are pledged assets of Shs 1 938 million (2022: Nil) which relate to repurchase agreements that have been pledged with the other banks. The terms of the pledges are usual and customary to such agreements.

All financial assets at fair value through profit or loss are current.

18. 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.

18.1 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.

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18.1 Notional amount (continued)

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**
2023			
Foreign exchange derivatives			
Forward foreign exchange	**(7 196)**	**561**	**(64)**
Currency swap	**(70 622)**	**2 285**	**(2 833)**
Options	**(25 610)**	**352**	**(353)**
Total derivatives	**(103 428)**	**3 198**	**(3 250)**
2022			
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)

		Group		Bank	
19.	**Financial assets at fair value through other comprehensive income**	**2023 Shs'million**	2022 Shs'million	**2023 Shs'million**	2022 Shs'million
	At 1 January	**90 585**	88 380	**90 193**	87 972
	Income accrued in the year	**9 124**	9 421	**9 080**	9 376
	Interest received in the year	**(9 324)**	(9 348)	**(9 280)**	(9 305)
	Fair value loss during the year	**(4 519)**	(2 916)	**(4 488)**	(2 898)
	Additions	**12 529**	24 148	**11 769**	24 148
	Maturities	**(24 751)**	(19 100)	**(24 000)**	(19 100)
		73 644	90 585	**73 274**	90 193

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 2023 was 11.3% (2022: 10.5%).

Included as part of FVOCI is Shs 1 250 million pledged as security for the Intra-Day Liquidity Facility (ILF). Refer to Note 48.2.

Included as part of FVOCI are pledged assets of Shs 13 000 million (2022: Nil) which relate to repurchase agreements that have been pledged with the Central Bank of Kenya. The terms of the pledges are usual and customary to such agreements.

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20. Financial assets held at amortised cost	Group and Bank 2023 Shs'million	2022 Shs'million
Government treasury bonds	**1 062**	-

The weighted average effective interest rate on the Government securities at 31 December 2023 was 16.9% (2022: Nil).

21. Loans and advances to customers

	Group and Bank 2023 Shs'million	2022 Shs'million
Commercial loans	**266 860**	216 573
Bills discounted	**61 801**	54 390
Post acceptance letters of credit	**3 791**	8 466
Instalment credit agreements	**15 494**	14 233
Overdrafts	**9 664**	8 463
Gross loans and advances to customers	**357 610**	302 125
Impairment losses year-end balance		
Stage 1 expected credit losses	**(5 193)**	(4 150)
Stage 2 expected credit losses	**(3 941)**	(3 219)
Stage 3 expected credit losses	**(17 977)**	(15 389)
Amounts written off during the year as uncollectible	**5 215**	4 212
Impairment losses	**(21 896)**	(18 546)
Net loans and advances to customers	**335 714**	283 579

22. Other assets and prepaid expenses	Group 2023 Shs'million	Group 2022 Shs'million	Bank 2023 Shs'million	Bank 2022 Shs'million
Prepaid expenses	**1 124**	643	**1 119**	641
Items in course of collection from banks	**898**	885	**898**	885
Staff loan marked to market	**557**	523	**557**	523
Balances due from mobile banking service providers	**10 044**	5 188	**10 044**	5 188
Other	**1 716**	2 197	**1 671**	2 152
Gross other assets and prepaid expenses	**14 339**	9 436	**14 289**	9 389
Impairment losses	**(6)**	(84)	**(4)**	(4)
Net other assets and prepaid expenses	**14 333**	9 352	**14 285**	9 385

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.

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23. Investment in subsidiaries

Name of subsidiary	Proportion of ownership interest and voting power held 2023	2022	Carrying amount Shs'million 2023	Shs'million 2022
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.

24. Non-current assets held for sale

As at 31 December 2023, 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, 2024.

	Group and Bank 2023 Shs'million	2022 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 2023, the properties had a fair value of Shs 170 million (2022: Shs 178 million).

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for the year ended 31 December 2023

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
25. Property and equipment							
Cost or valuation – 2023							
Balance at beginning of the year	**135**	**2 444**	**2 786**	**5 143**	**19**	**78**	**10 605**
Additions	**-**	**1 194**	**-**	**45**	**22**	**253**	**1 514**
Derecognition	**-**	**-**	**-**	**(542)**	**-**	**(1)**	**(543)**
Transfer from WIP	**-**	**-**	**-**	**310**	**-**	**(310)**	**-**
Balance at end of the year	**135**	**3 638**	**2 786**	**4 956**	**41**	**20**	**11 576**
Accumulated depreciation - 2023							
Balance at beginning of the year	**(88)**	**(1 516)**	**(2 238)**	**(4 115)**	**(19)**	**-**	**(7 976)**
Depreciation	**(2)**	**(418)**	**(50)**	**(378)**	**(3)**	**-**	**(851)**
Derecognition	**-**	**-**	**-**	**537**	**-**	**-**	**537**
Balance at end of the year	**(90)**	**(1 934)**	**(2 288)**	**(3 956)**	**(22)**	**-**	**(8 290)**
Net book value at end of year	**45**	**1 704**	**498**	**1 000**	**19**	**20**	**3 286**
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

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 2023 (December 2022: Nil)

Work in progress as at 31 December 2023 related to various projects that have commenced but not completed.

As at 31 December 2023, no impairment has been recognised on property and equipment.

Notes to the annual financial statements

for the year ended 31 December 2023

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
25. Property and equipment							
Cost or valuation – 2023							
Balance at beginning of the year	**135**	**2 444**	**2 786**	**5 142**	**19**	**78**	**10 604**
Additions	**-**	**1 194**	**-**	**43**	**22**	**253**	**1 512**
Derecognition	**-**	**-**	**-**	**(542)**	**-**	**(1)**	**(543)**
Transfer from WIP	**-**	**-**	**-**	**310**	**-**	**(310)**	**-**
Balance at end of the year	**135**	**3 638**	**2 786**	**4 953**	**41**	**20**	**11 573**
Accumulated depreciation - 2023							
Balance at beginning of the year	**(88)**	**(1 516)**	**(2 238)**	**(4 116)**	**(19)**	**-**	**(7 977)**
Depreciation	**(2)**	**(418)**	**(50)**	**(378)**	**(3)**	**-**	**(851)**
Derecognition	**-**	**-**	**-**	**537**	**-**	**-**	**537**
Balance at end of the year	**(90)**	**(1 934)**	**(2 288)**	**(3 957)**	**(22)**	**-**	**(8 291)**
Net book value at end of year	**45**	**1 704**	**498**	**996**	**19**	**20**	**3 282**
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
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

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 2023 (December 2022: Nil)

Work in progress as at 31 December 2023 related to various projects that have commenced but not completed.

As at 31 December 2023, no impairment has been recognised on property and equipment.

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26. Intangible assets	**Computer software Shs'million**	**WIP Shs'million**	**Total Shs'million**
Group			
Cost – 2023			
At start of year	**5 773**	**85**	**5 858**
Acquisitions	**–**	**326**	**326**
Transfer from WIP	**180**	**(180)**	**–**
Derecognition	**(1 455)**	**–**	**(1 455)**
Balance at end of the year	**4 498**	**231**	**4 729**
Amortisation and impairment losses – 2023			
At start of year	**(5 342)**	**–**	**(5 342)**
Amortisation	**(139)**	**–**	**(139)**
Derecognition	**1 455**	**–**	**1 455**
Balance at end of the year	**(4 026)**	**–**	**(4 026)**
Net book value at end of year	**472**	**231**	**703**
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

The Group has not pledged any item of intangible assets as security as at December 2023 (December 2022: 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 2023, no impairment has been recognised on intangible assets.

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26. Intangible assets (continued)	**Computer software Shs'million**	**WIP Shs'million**	**Total Shs'million**
Bank			
Cost – 2023			
At start of year	**5 691**	**79**	**5 770**
Acquisitions	**–**	**324**	**324**
Transfer from WIP	**180**	**(180)**	**–**
Derecognition	**(1 455)**	**–**	**(1 455)**
Balance at end of the year	**4 416**	**223**	**4 639**
Amortisation and impairment losses – 2023			
At start of year	**(5 308)**	**–**	**(5 308)**
Amortisation	**(127)**	**–**	**(127)**
Derecognition	**1 455**	**–**	**1 455**
Balance at end of the year	**(3 980)**	**–**	**(3 980)**
Net book value at end of year	**436**	**223**	**659**
Cost - 2022			
At start of year	5 544	66	5 610
Acquisitions	8	139	147
Transfer from WIP	139	(139)	-
Transfers from 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

The Bank has not pledged any item of intangible assets as security as at December 2023 (December 2022: 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 2023, no impairment has been recognised on intangible assets.

27. Leasehold land

Leasehold land is carried at cost less amortisation over the period of the lease.

	Group and Bank	
	2023 Shs'million	2022 Shs'million
At start of year	**32**	33
Amortisation charge for the year	**(1)**	(1)
At end of year	**31**	32

Prepaid operating leases relate to land purchased on 99 year lease.

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28. 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 of the defined benefit plan is summarised in the table below:

Category	2023 Number	2023 Annual Salary / Pension Shs'million	2022 Number	2022 Annual Salary / Pension Shs'million
Defined benefit				
Active members	**1**	**6**	2	12
Deferred pensioners	**770**	**67**	784	69
Pensioners	**1 392**	**464**	1 407	472

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.

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28. Retirement benefit plans (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.

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28. Retirement benefit plans (continued)

28.1 Defined benefit plan

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at 2023	2022
Discount rate	**15.8%**	13.9%
Expected return on assets	**15.8%**	13.9%
Expected rate of salary increase	**9.5%**	9.5%
Price inflation	**7.5%**	7.5%
Mortality rate	**PA (90)**	PA (90)
Pension increases in payment and deferment	**4.5%**	4.5%

	Shs'million	Shs'million
Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:		
Current service cost	**28**	26
Net interest income on defined benefit plan	**7**	29
	35	55
Amounts recognised in other comprehensive income in respect of these defined benefit plans are as follows:		
Actuarial gain - financial assumptions	**338**	45
Actuarial loss - demographic assumptions	**-**	(109)
Actuarial gain - experience adjustment	**190**	25
Return on plan assets	**(343)**	(455)
Adjustments for restrictions on the defined benefit asset	**(173)**	505
	12	11

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:

	2023 Shs'million	2022 Shs'million
Present value of funded defined benefit obligation	**(3 403)**	(3 913)
Fair value of plan assets	**4 015**	4 178
Funded surplus	**612**	265
Asset restriction	**(612)**	(265)
Additional liability in respect of the minimum funding requirement	**-**	(121)
Net liability arising from defined benefit obligation	**-**	(121)

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:

	2023 Shs'million	2022 Shs'million
Opening defined benefit obligation	**(3 913)**	(3 918)
Current service cost	**(28)**	(26)
Interest expense	**(501)**	(475)
Actuarial gains - experience	**190**	25
Actuarial loss – demographic assumption	**-**	(108)
Actuarial gains - financial assumption	**338**	45
Benefits paid	**511**	544
Closing defined benefit obligation	**(3 403)**	(3 913)

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28. Retirement benefit plans (continued)

28.1 Defined benefit plan (continued)

	Group and Bank 2023 Shs'million	2022 Shs'million
Movements in the present value of the plan assets in the current year were as follows:		
Opening fair value of plan assets	**4 178**	4 342
Benefits paid	**(511)**	(544)
Contributions from the employer	**144**	286
Interest income	**547**	549
Actuarial loss OCI	**(343)**	(455)
Closing fair value of plan assets	**4 015**	4 178
Movements in asset restriction in the current year were as follows:		
Opening value	**(385)**	(787)
Net interest cost	**(54)**	(103)
Decrease in asset restriction	**(173)**	505
Closing value	**(612)**	(385)

Cash-flows

The cash-flows in the current and expected in the next valuation period are shown below

	2024 Shs'million Next valuation (expected)	2023 Shs'million Current valuation (estimated)
Company contributions – normal	**1**	1
Company contributions - expenses	**-**	21
Company contributions – deficit funding	**-**	121
Pension payments	**555**	567
Other benefit payments	**-**	28
Expense payments	**25**	23

Nature of the pension fund assets	Fair value of plan assets			
	Debt instruments Shs' million	Equity instruments Shs' million	Other instruments Shs' million	Total Shs'million
2023				
Quoted fair value	**1 114**	**317**	**381**	**1 812**
Cash and cash equivalents	**-**	**-**	**4**	**4**
Investments in real estate	**-**	**-**	**2 199**	**2 199**
	1 114	**317**	**2 584**	**4 015**
2022				
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

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28. Retirement benefit asset (continued)

28.1 Defined benefit plan (continued)

Sensitivity analysis (continued)

The effect of certain changes to the financial and demographic assumptions is analysed below:

2023	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	22	24	21	23	22
Deferred members	442	470	429	458	449
Pensions in payment	2 939	3 080	2 873	3 022	3 018
Total liability	**3 403**	**3 574**	**3 323**	**3 503**	**3 489**
Gross service cost (excluding interest)	30	30	30	30	30

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

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.

29. Deferred income tax

Deferred tax balances

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

	Group 2023 Shs'million	Group 2022 Shs'million	Bank 2023 Shs'million	Bank 2022 Shs'million
Deferred tax assets	9 339	6 769	9 243	6 675
Deferred tax liabilities	(615)	(844)	(611)	(840)
Net deferred tax asset at the end of the year	8 724	5 925	8 632	5 835

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.

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29. 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
2023				
Property and equipment	400	(19)	-	381
Financial assets at FVOCI	706	-	1 355	2 061
Unrealised gains and losses	(74)	(29)	-	(103)
Impairment losses on financial instruments	3 569	701	-	4 270
Tax losses	60	15	-	75
Derivatives	(491)	504	-	13
Share based payment transactions	167	58	-	225
Provisions	1 285	200	-	1 485
Re-measurement of defined benefit liability	260	-	(4)	256
Property lease liabilities	322	251	-	573
Right of use assets	(279)	(233)	-	(512)
	5 925	1 448	1 351	8 724
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
Property lease liabilities	282	40	-	322
Right of use assets	(215)	(64)	-	(279)
	4 738	315	872	5 925

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29. Deferred income tax (continued)

Deferred tax balances (continued)

Consolidated deferred income tax assets and liabilities are attributable to the following:

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
2023				
Property and equipment	**396**	**(20)**	**-**	**376**
Financial assets at FVOCI	**699**	**-**	**1 346**	**2 045**
Unrealised gains and losses	**(70)**	**(29)**	**-**	**(99)**
Impairment losses on financial instruments	**3 546**	**724**	**-**	**4 270**
Derivatives	**(491)**	**504**	**-**	**13**
Share based payment transactions	**167**	**58**	**-**	**225**
Provisions	**1 285**	**200**	**-**	**1 485**
Re-measurement of defined benefit liability	**260**	**-**	**(4)**	**256**
Property lease liabilities	**322**	**251**	**-**	**573**
Right of use assets	**(279)**	**(233)**	**-**	**(512)**
	5 835	**1 455**	**1 342**	**8 632**
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
Property lease liabilities	282	40	-	322
Right of use assets	(215)	(64)	-	(279)
	4 677	292	866	5 835

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	Group and Bank	
30. Deposits from banks	**2023 Shs'million**	2022 Shs'million
Due to local banks	**8 997**	8 375
Due to foreign banks	**750**	643
Repurchase agreements	**1 938**	-
	11 685	9 018

The weighted average effective interest rate on deposits and balances due to banking institutions at 31 December 2023 was 4.7% (2022: 5.9%).

Deposits and balances due to banking institutions are current.

31. Due to Central Bank of Kenya

During its normal course of business, the Bank borrows and lends securities and may also sell securities under agreements to repurchase (repos) and purchase securities under agreements to resell (reverse repos).

The following table summarises the liability arising from the consideration received from the repurchase agreements, reflecting the transaction's economic substance as a loan to the Group:

	Group and Bank	
	2023 Shs'million	2022 Shs'million
Repurchase agreements	**13 047**	

	Group		Bank	
32. Deposits from customers	**2023 Shs'million**	2022 Shs'million	**2023 Shs'million**	2022 Shs'million
Call deposits	**21 232**	13 125	**21 232**	13 125
Savings and transmission accounts	**201 406**	207 209	**202 009**	208 135
Fixed deposits	**140 111**	83 417	**143 662**	85 403
Customer accounts	**362 749**	303 751	**366 903**	306 663

The weighted average effective interest rate on customer deposits at 31 December 2023 was 3.5% (2022: 2.4%). The carrying value of customer deposits approximates their fair value.

Deposits of Shs 2 285 million (2022: Shs 1 993 million) held as collateral for loans and advances were included in deposits from customers.

33. Borrowings

	Group and Bank	
33.1 Long-term borrowings	**2023 Shs'million**	2022 Shs'million
Absa Group Limited	**19 729**	15 506
Kenya Mortgage Refinance	**2 812**	3 022
Eco Business Fund	**1 483**	1 245
	24 024	19 773
33.2 Movement in the year		
Opening balance	**19 773**	8 505
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	**(209)**	(51)
Repayment – Eco business fund loan	**(91)**	-
Non – cash flow items:		
Foreign currency translation	**4 511**	837
Interest accrued in the year	**1 858**	483
Interest paid in the year	**(1 818)**	(420)
	24 024	19 773

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33. Borrowings (continued)

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 2023 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 monthly 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 monthly in arrears at a rate of a fixed rate of 5%.

No collateral is held against the borrowings.

During the year, the effective interest on the borrowing recorded an interest expense was Shs 1 858 million (2022: Shs 483 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 2023 and 2022.

34. Other liabilities and accrued expenses	Group 2023 Shs'million	Group 2022 Shs'million	Bank 2023 Shs'million	Bank 2022 Shs'million
Accrued expenses	**752**	676	**752**	676
Items in the course of collection due to other banks	**1 704**	1 660	**1 704**	1 660
Outstanding bankers' cheques	**79**	108	**79**	108
Trade finance margins	**690**	882	**690**	882
Card settlements	**479**	444	**479**	444
Impairment losses on off-balance sheet financial instruments	**578**	641	**578**	641
Other payables	**9 100**	7 893	**9 019**	7 840
Cash settled	**56**	-	**56**	-
Lease liability	**1 909**	1 074	**1 909**	1 074
Post acceptance letters of credit	**3 585**	5 549	**3 585**	5 549
	18 932	18 927	**18 851**	18 874

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.

34.1 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.

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34 Other liabilities and accrued expenses (continued)

34.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

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 Exposure to credit risk Shs'million	Stage 2 Exposure to credit risk Shs'million	Stage 3 Exposure to credit risk Shs'million	Total Exposure to credit risk Shs'million
Gross carrying amount at 1 January 2023	**91 266**	**16 732**	**106**	**108 104**
Transfer to Stage 1	**385**	**(385)**	**-**	**-**
Transfer to Stage 2	**(316)**	**316**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Exposures that have been derecognised	**(54 459)**	**(13 976)**	**(66)**	**(68 501)**
New exposures	**73 834**	**9 461**	**-**	**83 295**
Gross carrying amount at 31 December 2023	**110 710**	**12 148**	**40**	**122 898**
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

	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 2023	**478**	**169**	**(6)**	**641**
Transfer to Stage 1	**14**	**(14)**	**-**	**-**
Transfer to Stage 2	**(6)**	**6**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Exposures that have been derecognised	**(217)**	**(93)**	**8**	**(302)**
New exposures	**160**	**79**	**-**	**239**
Impairment losses at 31 December 2023	**429**	**147**	**2**	**578**
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

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34 Other liabilities and accrued expenses (continued)

34.2 Lease liability

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	Group and Bank 2023	2022
As at 1 January	**1 074**	941
Additions	**1 173**	436
Reclassifications and adjustments	**13**	113
Payments	**(547)**	(524)
Interest expense on lease liabilities (Note 5)	**171**	114
Foreign currency translation	**25**	(6)
At 31 December	**1 909**	1 074
Amounts recognised in statement of comprehensive income		
Interest expense on lease liabilities (Note 5)	**171**	114
Depreciation on right of use assets (Note 25)	**418**	355
Expenses relating to short term leases	**128**	113
	717	582
Amounts recognised in statement of cash flows		
Payments	**(547)**	(524)
Interest expense on lease liabilities (Note 5)	**171**	114
	(376)	(410)
Maturity analysis of lease liabilities – contractual undiscounted cash flows:		
Less than one year	**688**	452
Between one to five years	**1 878**	848
Total undiscounted lease liabilities	**2 566**	1 300
Lease liabilities included in the statement of financial position	**1 909**	1 074

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.

35. 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 2023 Shs'million	2022 Shs'million
5 432 (2022: 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.

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36. Reserves

36.1 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.

36.2 Retained earnings

This reserve includes accumulated profits over the years. The retained earnings are distributable to shareholders.

36.3 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.

(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.

(e) Absa Group Limited Colleague Phantom Share Scheme (ECSS)

The Absa Group Limited B-BBEE transaction resulted in the Colleague Phantom Share Scheme, which provides non-South Africa employees with a phantom share award. The Colleague Phantom Share Scheme is an award issued by Absa Group and provides for eligible employees to receive the cash equivalent of the Absa Group Limited Colleague Share Scheme. At the end of five years, the Scheme will vest where participants will receive the cash equivalent of the Absa Group Limited Colleague Share Scheme if they remain in the employment on 1 September 2028. Under the scheme, eligible permanent employees will be entitled to a potential trickle dividend throughout the vesting period. This Scheme is accounted for as a cash-settled share-based payment arrangement.

Options series	Number	Exercise price	Total fair value at grant date (Shs' million)
SIPP	**192 861**	**1 252**	**168**
SIPRB	**4 085**	**1 527**	**7**
SIPD	**106 011**	**1 224**	**167**
SVP Cliff	**126 948**	**1 501**	**191**
Share appreciation rights series	**Number**	**Exercise price**	**Total fair value at grant date (Shs' million)**
SIPP	**53 628**	**1 342**	**69**
SIPD	**3 707**	**1 626**	**6**
ECSS	**1 570 360**	**550**	**864**

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36. Reserves (continued)

36.3 Share-based payment reserve (continued)

Movements during the period

The following reconciles the number of share options outstanding at the beginning and end of the period:

	2023					2022				
	Opening balance	**Granted/ transferred**	**Forfeited**	**Exercised**	**Closing balance**	Opening balance	Granted/ transferred	Forfeited	Exercised	Closing balance
Equity settled										
SIPP	**360 839**	**95 369**	**(149 375)**	**(113 972)**	**192 861**	523 582	75 771	(199 951)	(38 563)	360 839
SIPRB	**5 023**	**5 649**	**-**	**(6 587)**	**4 085**	7 533	1 002	-	(3 512)	5 023
SIPD	**88 417**	**70 468**	**(27 794)**	**(25 080)**	**106 011**	60 115	59 497	(1 158)	(30 037)	88 417
SVP Cliff	**83 522**	**43 426**	**-**	**-**	**126 948**	45 528	37 994	-	-	83 522
Cash settled										
SIPRB	**798**	**(798)**	**-**	**-**	**-**	2 169	-	-	(1 371)	798
SIPP	**-**	**53 628**	**-**	**-**	**53 628**	-	-	-	-	-
SIPD	**-**	**5 560**	**-**	**(1 853)**	**3 707**	-	-	-	-	-
ECSS	**-**	**1 591 000**	**(19 780)**	**(860)**	**1 570 360**	-	-	-	-	-

	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)**	
	2023	2022	**2023**	2022	**2023**	**2023**
Equity settled:						
SIPP	**639**	1 120	**2**	1	**1 572**	1 392
SIPRB	**1 383**	1 088	**1**	1	**1 650**	1 035
SIPD	**1 057**	684	**1**	1	**1 572**	1 392
SVP Cliff	**-**	-	**2**	2	**-**	1 392
Cash settled						
SIPRB	**-**	1 298	**-**	1	**-**	-
SIPD	**1 572**	-	**1**	-	**-**	-
ECSS	**716**	-	**5**	-	**703**	-

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37. Cash used in operations	Group 2023 Shs'million	Group 2022 Shs'million	Bank 2023 Shs'million	Bank 2022 Shs'million
Profit before tax for the year	**23 678**	20 849	**22 259**	19 829
Adjustments for:				
Interest paid	**11 335**	6 469	**11 586**	6 608
Interest received	**(48 624)**	(36 732)	**(48 579)**	(36 703)
Impairment loss recognised (Note 9)	**8 374**	5 824	**8 374**	5 747
Depreciation (Note 25)	**851**	756	**851**	756
Amortisation – intangible assets (Note 26)	**139**	127	**127**	116
Amortisation – leasehold land (Note 27)	**1**	1	**1**	1
Share based payments (Note 10.1)	**194**	179	**194**	179
Loss on disposal of property and equipment	**6**	-	**6**	-
Pension asset (Note 28)	**35**	55	**35**	55
Cash used in operations before working capital changes	**(4 011)**	(2 472)	**(5 146)**	(3 412)
Changes in working capital				
Increase in derivative assets	**(331)**	(1 747)	**(331)**	(1 747)
Increase in other assets	**(164)**	(291)	**(84)**	(139)
Increase/(decrease) in derivative liabilities	**2 017**	(111)	**2 017**	(111)
(Decrease)/increase in other liabilities	**(770)**	116	**(798)**	(59)
Increase in loans and advances to customers	**(56 488)**	(54 485)	**(56 488)**	(54 485)
Decrease/(increase) in FVOCI securities	**12 421**	(5 019)	**12 431**	(5 018)
Increase in financial assets at amortised cost	**(1 062)**	-	**(1 062)**	-
Increase in CBK cash reserve requirement	**(1 983)**	(711)	**(1 983)**	(711)
(Increase)/decrease in amounts due from group companies	**(18 406)**	10 177	**(18 697)**	10 194
Decrease in amounts due to group companies	**(44 474)**	(6 345)	**(44 474)**	(6 345)
Decrease in financial assets at FVTPL	**22 459**	1 356	**22 459**	1 356
Decrease in retirement benefit liability	**(144)**	(286)	**(144)**	(286)
Increase in deposits from banks	**2 667**	4 209	**2 667**	4 209
Increase in due to Central Bank of Kenya	**13 047**	-	**13 047**	-
Increase in customer deposits	**58 998**	35 034	**60 240**	35 926
Total changes in working capital	**(12 213)**	(18 103)	**(11 200)**	(17 216)
Cash used in operations	**(16 224)**	(20 575)	**(16 346)**	(20 628)

38. Taxation paid	Group 2023 Shs'million	Group 2022 Shs'million	Bank 2023 Shs'million	Bank 2022 Shs'million
Tax (payable) at start of year	**748**	(2 521)	**537**	(2 750)
Current income tax expense (Note 13.1)	**(8 498)**	(6 556)	**(8 075)**	(6 223)
Prior year adjustment	**(261)**	(21)	**(263)**	(32)
Tax payable/(receivable) at the end of the year	**589**	(748)	**793**	(537)
Total income taxes paid	**(7 422)**	(9 846)	**(7 008)**	(9 542)

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39. Dividends paid	2023 Shs'million	2022 Shs'million
Dividends payable at start of the year (2022 final proposed)	**6 246**	5 975
Interim dividend	**1 086**	1 086
Dividend waiver*	**-**	(1 466)
Total dividends paid	**7 332**	5 595

*Dividend waiver relates to forfeited dividends by Absa Group Limited

40. 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 2023 Shs'million	Group 2022 Shs'million	Bank 2023 Shs'million	Bank 2022 Shs'million
Cash in hand (Note 15)	**12 692**	11 464	**12 692**	11 464
Non-cash reserve ratio balances with CBK	**6 094**	3 919	**6 094**	3 919
Mobile money balances (Note 22)	**10 044**	5 188	**10 044**	5 188
Loans and advances to banks (Note 16)	**1 724**	4 960	**1 724**	4 960
	30 554	25 531	**30 554**	25 531

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% (2022: 4.25%). The Bank held Shs 15 322 million as the cash reserve (2022: Shs 12 513 million).

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		Fair Value through Profit/Loss	Fair Value through OCI – Debt instruments	Amortised Cost – financial instruments	Amortised cost financial liabilities	Total Assets and Liabilities	Off balance sheet financial instruments
41.	**Financial instruments**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**
41.1.	**Categories of financial instruments**						
	Group						
	Assets as per Statement of Financial Position – 2023						
	Cash and balances with Central Bank of Kenya	–	–	29 599	–	29 599	–
	Derivative financial assets	3 198	–	–	–	3 198	–
	Loans and advances to customers	–	–	335 714	–	335 714	68 605
	Debt instruments	20 446	73 644	1 062	–	95 152	–
	Loans and advances to banks	–	–	1 721	–	1 721	–
	Due from group companies	–	–	27 287	–	27 287	–
	Other assets	–	–	13 005	–	13 005	–
		23 644	73 644	408 388	–	505 676	68 605
	Liabilities as per Statement of Financial Position – 2023						
	Derivative financial liabilities	3 250	–	–	–	3 250	–
	Borrowings	–	–	–	24 024	24 024	–
	Due to Central Bank of Kenya	–	–	–	13 047	13 047	–
	Deposits from banks	–	–	–	11 685	11 685	–
	Deposits from customers	–	–	–	362 749	362 749	–
	Due to group companies	–	–	–	16 324	16 324	–
	Other liabilities	–	–	–	18 932	18 932	54 294
		3 250	–	–	446 761	450 011	54 294
	Interest income	(226)	9 124	45 139	–	54 037	–
	Interest expense	–	–	–	(14 219)	(14 219)	–
		(226)	9 124	45 139	(14 219)	39 818	–

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41. Financial instruments (continued)	Fair Value through Profit/ Loss – Held for trading Shs'million	Fair Value through OCI- Debt instruments Shs'million	Amortised Cost - financial instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million	Off balance sheet financial instruments Shs'million
41.1. Categories of financial instruments (continued)						
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	-	40 853	-
Interest expense	-	-	-	(8 538)	(8 538)	-
	-	9 421	31 432	(8 538)	32 315	-

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41. Financial instruments (continued)	Fair Value through Profit/ Loss Shs'million	Fair Value through OCI – Debt instruments Shs'million	Amortised Cost – financial instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million	Off balance sheet financial instruments Shs'million
41.1. Categories of financial instruments (continued)						
Bank						
Assets as per Statement of Financial Position – 2023						
Cash and balances with Central Bank of Kenya	–	–	29 599	–	29 599	–
Derivative financial assets	3 198	–	–	–	3 198	–
Loans and advances to customers	–	–	335 714	–	335 714	68 605
Debt instruments	20 446	73 274	1 062	–	94 782	–
Loans and advances to banks	–	–	1 721	–	1 721	–
Due from group companies	–	–	27 888	–	27 888	–
Other assets	–	–	13 005	–	13 005	–
	23 644	73 274	408 989	–	505 907	68 605
Liabilities as per Statement of Financial Position – 2023						
Derivative financial liabilities	3 250	–	–	–	3 250	–
Borrowings	–	–	–	24 024	24 024	–
Due to Central Bank of Kenya	–	–	–	13 047	13 047	–
Deposits from banks	–	–	–	11 685	11 685	–
Deposits from customers	–	–	–	366 903	366 903	–
Due to group companies	–	–	–	16 324	16 324	–
Other liabilities	–	–	–	18 851	18 851	54 294
	3 250	–	–	450 834	454 084	54 294
Interest income	(226)	9 080	45 138	–	53 992	–
Interest expense	–	–	–	(14 470)	(14 470)	–
	(226)	9 080	45 138	(14 470)	39 522	–

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41. Financial instruments (continued)

41.1. Categories of financial instruments (continued)

	Fair Value through Profit/ Loss – Held for trading Shs'million	Fair value through OCI – Debt instruments Shs'million	Amortised Cost – financial 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	-	40 808	-
Interest expense	-	-	-	(8 677)	(8 677)	-
	-	9 376	31 432	(8 677)	32 131	-

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42. Risk management

42.1 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.

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42. Risk management (continued)

42.1 Financial risk management objectives (continued)

Effective risk management and control are essential for sustainable and profitable growth (continued)

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

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.

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42. Risk management (continued)

42.1 Financial risk management objectives (continued)

Risk responsibilities (continued)

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.

42.2 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.

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 Credit Risk Technical 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.

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42. Risk management (continued)

42.2 Credit risk (continued)

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.

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42. Risk management (continued)

42.2 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.

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42. Risk management (continued)

42.2 Credit risk (continued)

Approach to impairment of credit exposures (continued)

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.

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.

(ii) 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 estimatesincorporate 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 a 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.

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42. Risk management (continued)

42.2 Credit risk (continued)

Wholesale portfolio (continued)

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.

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 guided 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).

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42. Risk management (continued)

42.2 Credit risk (continued)

Wholesale portfolio (continued)

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.

Incorporation of forward-looking information into the IFRS 9 modelling

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 2023.

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. The following table shows the key forecast assumptions used to calculate the Group's ECL allowance for the reporting period ended 31 December 2023:

	Baseline					Mild upside					Mild downside				
	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
Real GDP (%)	5.2	5.4	5.5	5.5	5.5	4.9	4.1	4.1	4.0	4.0	5.5	6.9	7.0	7.2	7.3
CPI (%)	7.8	6.8	5.7	5.4	5.4	8.2	7.9	7.4	7.2	7.2	6.8	5.4	4.9	4.6	4.6
Average policy rate (%)	9.83	10.38	9.5	9.06	9.00	9.96	11.5	10.9	10.5	10.5	9.83	9.50	8.31	8.00	8.00

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42. Risk management (continued)

42.2 Credit risk (continued)

Wholesale portfolio (continued)

Incorporation of forward-looking information into the IFRS 9 modelling (continued)

The following table shows the key forecast assumptions for the three economic scenarios as at 31 December 2022:

	Baseline					Mild upside					Mild downside				
	2022	2023	2024	2027	2026	2022	2023	2024	2027	2026	2022	2023	2024	2027	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

Kenya's economic performance strengthened in 2023 despite continued challenges, with real GDP growth accelerating from 4.8% in 2022 to an estimated 5% in 2023. The recovery in growth has mainly been driven by agriculture output on the back of an improvement in weather conditions. Over the medium-term we expect growth to be supported by a pick-up in agriculture output, tourism activity and developments in the energy sector and associated infrastructure. Inflation has also eased, declining to 6.6% in the quarter from a 6.8% in September 2023. With inflation back within the CBK's 2.5-7.5% target, we expect the MPC to keep policy rates unchanged in the near term and cut at end-2024.

The economy however still faces several challenges to sustain its growth momentum such as heightened fiscal and external vulnerabilities manifested through high public debt, elevated cost of living, exchange rate pressures, global economic uncertainties, and tight global financial conditions. Debt related vulnerabilities persist, and rising debt costs constrain government's ability to address development challenges. The country is however making progress and has reduced the primary deficit from 1.6% of GDP in FY2021/22 to 0.8% of GDP in FY2022/23, while the overall deficit decreased from 6.2% to 5.6% during the same period and is expected to reduce further to 5.4% in FY2023/24.

Real GDP is projected to grow between 4.5–5.2% in 2024 according to the World Bank. Improved investor confidence and credit to the private sector—helped by reduced domestic borrowing by the government—will strengthen private investment over the medium term. The outlook is subject to elevated uncertainty because of domestic and external risks. Domestically, droughts and floods would resume inflationary pressures and food insecurity, and coupled with the sustained reform momentum would dampen growth while external risks could stem from global credit markets volatility, lower than anticipated growth in the Euro Zone coupled with elevated commodity prices driven by international conflicts.

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 both the baseline and downside scenarios to a 100% and does not include management adjustments required to provide a more appropriate assessment of risk.

	Shs' million
Impairment losses	
Baseline	**7 487**
Downside	**23 998**

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42. Risk management (continued)

42.2 Credit risk (continued)

Wholesale portfolio (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

The 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 realised.

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42. Risk management (continued)

42.2 Credit risk (continued)

42.2.1 Maximum credit risk exposure

		12 months expected credit losses - stage 1			Lifetime expected credit losses - stage 2			Credit impaired - stage 3
Group and Bank	**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**
2023								
Balances with Central Bank of Kenya	**16 910**	**16 910**	**–**	**–**	**–**	**–**	**–**	**–**
Financial assets at FVTPL	**20 446**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivative financial assets	**3 198**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Investment securities designated at FVOCI	**73 644**	**70 498**	**3 146**	**–**	**–**	**–**	**–**	**–**
Investment securities designated at amortised cost	**1 062**	**–**	**1 062**	**–**	**–**	**–**	**–**	**–**
Loans and advances to banks	**1 724**	**1 705**	**–**	**–**	**–**	**19**	**–**	**–**
Balances due from group companies	**27 287**	**287**	**27 000**	**–**	**–**	**–**	**–**	**–**
Other assets	**13 005**	**10 301**	**2 704**	**–**	**–**	**–**	**–**	**–**
Loans and advances to customers	**357 610**	**42 514**	**259 474**	**2 506**	**–**	**21 035**	**11 201**	**20 880**
Total gross maximum exposure to credit risk	**514 886**	**142 215**	**293 386**	**2 506**	**–**	**21 054**	**11 201**	**20 880**
Impairment losses	**(21 954)**	**(115)**	**(4 763)**	**(374)**	**–**	**(519)**	**(3 422)**	**(12 761)**
Total financial assets per the statement of financial position	**492 932**	**142 100**	**288 623**	**2 132**	**–**	**20 535**	**7 779**	**8 119**
Off balance sheet exposure	**122 898**	**19 557**	**91 558**	**2**	**–**	**11 029**	**710**	**42**

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42. Risk management (continued)

42.2 Credit risk (continued)

42.2.1 Maximum credit risk exposure (continued)

		12 months expected credit losses - stage 1			Lifetime expected credit losses - stage 2			Credit impaired - stage 3
Group and Bank	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

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42. Risk management (continued)

42.2 Credit risk (continued)

42.2.2 Analysis of credit risk mitigation and collateral

		Collateral- credit impaired financial assets						**Collateral – All other financial assets**					
Group and Bank	**Exposure relating to on SOFP**	**Guarantees credit insurance and credit derivatives**	**Physical collateral**	**Cash collateral**		**Other**	**Unsecured**	**Guarantees credit insurance and credit derivatives**	**Physical collateral**	**Cash collateral**	**Other**	**Unsecured**	**Net exposure**
2023	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**		**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**
Cash and balances with Central Bank of Kenya	**16 910**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16 910**	**–**	**–**
Loans and advances to banks	**1 724**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1 724**	**–**	**–**
Financial assets at fair value through profit or loss	**20 446**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**20 446**	**–**	**–**
Derivative financial instruments	**3 198**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3 198**	**–**	**–**
Financial assets at fair value through other comprehensive income	**73 644**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**73 644**	**–**	**–**
Financial assets at amortised cost	**1 062**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1 062**	**–**	**–**
Due from group companies	**8 386**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8 386**	**–**	**–**
Loans and advances to customers	**357 610**	**1 312**	**10 343**	**7**	**1 507**	**21 743**	**21 789**	**88 838**	**1 040**	**242**	**210 789**	**–**	**–**
Other assets and prepaid expenses	**122 898**	**–**	**37**	**–**	**2**	**1**	**2 414**	**14 428**	**212**	**1 467**	**104 337**	**–**	**–**
Credit exposures relating to off-balance sheet items	**27 287**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**27 287**	**–**	**–**
	633 165	**1 312**	**10 380**	**7**	**1 509**	**21 744**	**24 203**	**103 266**	**1 252**	**1 709**	**467 783**	**–**	**–**

		Collateral- credit impaired financial assets					Collateral - All other financial assets					
Group and Bank	Exposure relating to on SOFP	Guarantees credit insurance and credit derivatives	Physical collateral	Cash collateral	Other	Unsecured	Guarantees credit insurance and credit derivatives	Physical collateral	Cash collateral	Other	Unsecured	Net exposure
2022	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million
Balances with Central Bank of Kenya	12 752	-	-	-	-	-	-	-	-	-	-	12 752
Financial assets at fair value through other comprehensive income	90 585	-	-	-	-	-	-	-	-	-	-	90 585
Derivative financial assets	2 867	-	-	-	-	-	-	-	-	-	-	2 867
Financial assets at fair value through profit or loss	42 905	-	-	-	-	-	-	-	-	-	-	42 905
Loans and advances to banks	4 960	-	-	-	-	-	-	-	-	-	-	4 960
Other assets	8 386	-	-	-	-	-	-	-	-	-	-	8 386
Loans and advances to customers	302 125	214	6 530	4 485	2 379	2 644	24 415	73 894	1 046	305	186 213	-
Credit exposures relating to off-balance sheet items	108 104	-	37	-	2	66	31	2 386	108	209	54 805	50 460
Balances due from group companies	8 881	-	-	-	-	-	-	-	-	-	-	8 881
	581 565	214	6 567	4 485	2 381	2 710	24 446	76 280	1 154	514	241 018	221 796

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42. Risk management (continued)

42.2 Credit risk (continued)

42.2.3 Industry analysis

Group and Bank 2023	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	**-**	**29 599**	**-**	**-**	**-**	**-**	**-**	**-**	**29 599**
Loans and advances to banks	**1 721**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1 721**
Derivative financial instruments	**1 998**	**-**	**44**	**55**	**4**	**806**	**-**	**291**	**3 198**
Financial assets at FVTPL	**-**	**20 446**	**-**	**-**	**-**	**-**	**-**	**-**	**20 446**
Financial assets at FVOCI	**-**	**73 644**	**-**	**-**	**-**	**-**	**-**	**-**	**73 644**
Financial assets at amortised cost	**-**	**1 062**	**-**	**-**	**-**	**-**	**-**	**-**	**1 062**
Loans and advances to customers	**13 815**	**-**	**60 308**	**71 638**	**12 015**	**14 904**	**121 909**	**41 125**	**335 714**
	17 534	**124 751**	**60 352**	**71 693**	**12 019**	**15 710**	**121 909**	**41 416**	**465 384**
2022									
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

42.2.4 Financial assets written off during the financial period but still subject to enforcement activities

Contractual amount outstanding on financial assets that were written off during the reporting period but are still subject to enforcement activity:

	2023 Shs'million	2022 Shs'million
Assets written off during financial period still subject to enforcement activities	**5 195**	4 355

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42. Risk management (continued)

42.2. Credit risk (continued)

42.2.5 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 2023	**245 875**	**29 363**	**26 887**	**302 125**
Transfer to Stage 1	**7 613**	**(6 809)**	**(804)**	**-**
Transfer to Stage 2	**(10 013)**	**10 141**	**(128)**	**-**
Transfer to Stage 3	**(4 023)**	**(3 678)**	**7 701**	**-**
Financial assets that have been derecognised	**(118 032)**	**(13 133)**	**(9 247)**	**(140 412)**
Write-offs	**-**	**-**	**(5 215)**	**(5 215)**
New financial assets originated	**162 632**	**22 761**	**15 719**	**201 112**
Gross carrying amount at 31 December 2023	**284 052**	**38 645**	**34 913**	**357 610**
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

The weighted average effective interest rate on loans and advances at 31 December 2023 was 13.3% (2022: 11%).

	Collectively assessed			
	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Loss allowance at 1 January 2023	**3 326**	**2 661**	**6 347**	**12 334**
Transfer to Stage 1	**922**	**(526)**	**(396)**	**-**
Transfer to Stage 2	**(141)**	**221**	**(80)**	**-**
Transfer to Stage 3	**(95)**	**(1 139)**	**1 234**	**-**
Financial assets that have been derecognised	**(1 008)**	**(436)**	**(3 129)**	**(4 573)**
Write-offs	**-**	**-**	**(3 648)**	**(3 648)**
New financial assets originated	**990**	**2 496**	**7 470**	**10 956**
Impairment losses at 31 December 2023	**3 994**	**3 277**	**7 798**	**15 069**
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

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42. Risk management (continued)

42.2. Credit risk (continued)

42.2.5 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 2023	**823**	**558**	**4 831**	**6 212**
Transfer to Stage 1	**107**	**(107)**	**-**	**-**
Transfer to Stage 2	**(17)**	**17**	**-**	**-**
Transfer to Stage 3	**(22)**	**(22)**	**44**	**-**
Financial assets that have been derecognised	**(368)**	**(321)**	**(1 892)**	**(2 581)**
Write-offs	**-**	**-**	**(1 567)**	**(1 567)**
New financial assets originated	**676**	**266**	**3 821**	**4 763**
Impairment losses at 31 December 2023	**1 199**	**391**	**5 237**	**6 827**
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

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42. Risk management (continued)

42.2. Credit risk (continued)

42.2.6 Balances with Central Bank of Kenya	**Individually assessed** Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Gross carrying amount at 1 January 2023	**12 752**	**-**	**-**	**12 752**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**-**	**-**	**-**	**-**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**4 158**	**-**	**-**	**4 158**
Gross carrying amount at 31 December 2023	**16 910**	**-**	**-**	**16 910**
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

Impairment losses at 1 January 2023	**5**	**-**	**-**	**5**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**(2)**	**-**	**-**	**(2)**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**-**	**-**		**-**
Impairment losses at 31 December 2023	**3**	**-**	**-**	**3**
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

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42. Risk management (continued)

42.2. Credit risk (continued)

		Individually assessed			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
42.2.7	**Loans and advances to Bank**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**
	Gross carrying amount at 1 January 2023	**4 957**	**-**	**-**	**4 957**
	Transfer to Stage 1	**-**	**-**	**-**	**-**
	Transfer to Stage 2	**-**	**-**	**-**	**-**
	Transfer to Stage 3	**-**	**-**	**-**	**-**
	Financial assets that have been derecognised	**(3 233)**	**-**	**-**	**(3 233)**
	Write-offs	**-**	**-**	**-**	**-**
	New financial assets originated	**-**	**-**	**-**	**-**
	Gross carrying amount at 31 December 2023	**1 724**	**-**	**-**	**1 724**
	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
	Impairment losses at 1 January 2023	**3**	**-**	**-**	**3**
	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 2023	**-**	**-**	**-**	**-**
	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

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42. Risk management (continued)

42.2. Credit risk (continued)

		Individually assessed			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
42.2.8	**Financial assets at FVOCI**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**
	Gross carrying amount at 1 January 2023	**90 585**	**-**	**-**	**90 585**
	Transfer to Stage 1	**-**	**-**	**-**	**-**
	Transfer to Stage 2	**-**	**-**	**-**	**-**
	Transfer to Stage 3	**-**	**-**	**-**	**-**
	Financial assets that have been derecognised	**(16 941)**	**-**	**-**	**(16 941)**
	Write-offs	**-**	**-**	**-**	**-**
	New financial assets originated	**-**	**-**	**-**	**-**
	Gross carrying amount at 31 December 2023	**73 644**	**-**	**-**	**73 644**
	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
	Impairment losses at 1 January 2023	**96**	**-**	**-**	**96**
	Transfer to Stage 1	**-**	**-**	**-**	**-**
	Transfer to Stage 2	**-**	**-**	**-**	**-**
	Transfer to Stage 3	**-**	**-**	**-**	**-**
	Financial assets that have been derecognised	**(43)**	**-**	**-**	**(43)**
	New financial assets originated	**-**	**-**	**-**	
	Impairment losses at 31 December 2023	**53**	**-**	**-**	**53**
	Impairment losses at 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

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for the year ended 31 December 2023

42. Risk management (continued)

42.2. Credit risk (continued)

42.2.9 Financial assets at amortised cost	**Individually assessed** **Stage 1** **Shs'million**	**Stage 2** **Shs'million**	**Stage 3** **Shs'million**	**Total** **Shs'million**
Gross carrying amount at 1 January 2023	**-**	**-**	**-**	**-**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**-**	**-**	**-**	**-**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**1 062**	**-**	**-**	**1 062**
Gross carrying amount at 31 December 2023	**1 062**	**-**	**-**	**1 062**
Gross carrying amount at 1 January 2022	-	-	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	-	-	-	-
Gross carrying amount at 31 December 2022	-	-	-	-
Impairment losses at 1 January 2023	**-**	**-**	**-**	**-**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**-**	**-**	**-**	**-**
New financial assets originated	**-**	**-**	**-**	**-**
Impairment losses at 31 December 2023	**-**	**-**	**-**	**-**
Impairment losses at 1 January 2022	-	-	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
New financial assets originated	-	-	-	-
Impairment losses at 31 December 2022	-	-	-	-

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42. Risk management (continued)

42.2. Credit risk (continued)

42.2.10 Other assets and prepaid expenses	**Individually assessed** **Stage 1** **Shs'million**	**Stage 2** **Shs'million**	**Stage 3** **Shs'million**	**Total** **Shs'million**
Gross carrying amount at 1 January 2023	**9 352**	**84**	**-**	**9 436**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**-**	**-**	**-**	**-**
Write-offs	**-**	**(78)**	**-**	**(78)**
New financial assets originated	**4 981**	**-**	**-**	**4 981**
Gross carrying amount at 31 December 2023	**14 333**	**6**	**-**	**14 339**
Gross carrying amount at 1 January 2022	10 050	2	-	10 052
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(82)	82	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	(616)	-	-	(616)
Write-offs	-	-	-	-
New financial assets originated	-	-	-	-
Gross carrying amount at 31 December 2022	9 352	84	-	9 436
Impairment losses at 1 January 2023	**-**	**84**	**-**	**84**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**-**	**-**	**-**	**-**
Write offs	**-**	**(78)**	**-**	**(78)**
New financial assets originated	**-**	**-**	**-**	**-**
Impairment losses at 31 December 2023	**-**	**6**	**-**	**6**
Impairment losses at 1 January 2022	-	2	-	2
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
New financial assets originated	-	82	-	82
Impairment losses at 31 December 2022	-	84	-	84

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42. Risk management (continued)

42.2 Credit risk (continued)

42.2.11 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	
	2023 Shs'million	2022 Shs'million
Financial guarantee contracts	**24 901**	22 241
Irrevocable debt facilities	**68 605**	50 460
Letters of credit	**29 392**	35 403
	122 898	108 104

42.3 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 22.2 million (2022: Shs 25.2 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.

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42. Risk management (continued)

42.3 Market risk (continued)

42.3.1 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:		
2023		
USD	**221 120**	**221 166**
GBP	**6 476**	**6 463**
Euro	**16 847**	**16 604**
JPY	**2 256**	**2 255**
CHF	**876**	**860**
ZAR	**246**	**245**
Other	**648**	**528**
	248 469	**248 121**
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

Foreign currency sensitivity analysis

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.

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42. Risk management (continued)

42.3 Market risk (continued)

42.3.1 Foreign currency risk (continued)

	2023 Profit or loss Shs' million	2022 Profit of loss Shs' million
Assets		
USD	**22 112**	25 905
GBP	**648**	900
Euro	**1 685**	3 895
JPY	**226**	188
CHF	**88**	25
ZAR	**25**	67
Other	**65**	31
Liabilities		
USD	**(22 117)**	(25 951)
GBP	**(646)**	(900)
Euro	**(1 660)**	(3 895)
JPY	**(226)**	(187)
CHF	**(86)**	(25)
ZAR	**(24)**	(68)
Other	**(53)**	(21)
Effect of 10% change on profit before tax	**(37)**	(36)
Income tax effect at 30%	**11**	11
Effect of 10% change on equity	**(26)**	(25)

42.3.2 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.

42.3.2.1 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 , JPY and USD LIBOR have been discontinued as at 31 December 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 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.

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42. Risk management (continued)

42.3 Market risk (continued)

42.3.2 Interest rate risk (continued)

42.3.2.1 Interest rate benchmark reform

Background

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:

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 had successfully completed the transition of majority of its Libor exposures by the end of 2023. The Group is confident that it has the operational capability to process the remaining transitions for those interest rate benchmarks, including exposures to three-month synthetic sterling LIBOR that will cease to be available after March 2024 and one-month, three-month and six-month synthetic US dollar LIBOR, that will cease to be available after September 2024.

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.

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42. Risk management (continued)

42.3 Market risk (continued)

42.3.2 Interest rate risk (continued)

42.3.2.1 Interest rate benchmark reform

Consolidated Statement of Financial Position Summary – IBOR Reform Note

	Carrying values of financial instruments impacted by benchmark reform and yet to transition
	Synthetic USD LIBOR Shs'million
Non-derivative assets[1]	**4 409**
	4 409

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 amortised 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.

[1] Includes 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.

42.3.2 Interest rate sensitivity analysis

Group	Up to 1 month	1 - 3 months	4 - 12 months	Over 1 year	Non-interest bearing	Total
2023	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**
Assets						
Cash and balances with Central Bank of Kenya	**-**	**-**	**-**	**-**	**29 599**	**29 599**
Financial assets at fair value through profit or loss	-	**60**	**4 951**	**15 435**	**-**	**20 446**
Financial assets at fair value through other comprehensive income	**2 232**	**8 362**	**21 617**	**41 433**	**-**	**73 644**
Financial assets at amortised cost	**-**	**-**	**-**	**1 062**	**-**	**1 062**
Deposits and balances due from banking institutions	**1 721**	**-**	**-**	**-**	**-**	**1 721**
Due from group companies	**22 440**	**4 733**	**-**	**-**	**114**	**27 287**
Loans and advances to customers	**268 103**	**2 177**	**9 878**	**55 556**	**-**	**335 714**
Total assets	**294 496**	**15 332**	**36 446**	**113 486**	**29 713**	**489 473**
Liabilities						
Deposits and balances due to banking institutions	**6 336**	**1 396**	**3 953**	**-**	**-**	**11 685**
Due to Central Bank of Kenya	**13 047**	**-**	**-**	**-**	**-**	**13 047**
Due to group companies	**5 295**	**1 042**	**-**	**9 096**	**891**	**16 324**
Deposits from customers	**114 495**	**48 209**	**77 354**	**122 691**	**-**	**362 749**
Borrowings	**5 753**	**13 959**	**-**	**4 312**	**-**	**24 024**
Total liabilities and equity	**144 926**	**64 606**	**81 307**	**136 099**	**891**	**427 829**
Interest rate sensitivity gap	**149 570**	**(49 274)**	**(44 861)**	**(22 613)**	**28 822**	**61 644**

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42. Risk management (continued)

42.3 Market risk (continued)

42.3.2 Interest rate risk (continued)

42.3.2.2 Interest rate sensitivity analysis (continued)

Group	Up to 1 month	1 - 3 months	4 - 12 months	Over 1 year	Non-interest bearing	Total
2022	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**	**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

Bank	Up to 1 month	1 - 3 months	4 - 12 months	Over 1 year	Non-interest bearing	Total
2023	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**
Assets						
Cash and balances with Central Bank of Kenya	**-**	**-**	**-**	**-**	**29 599**	**29 599**
Financial assets at fair value through profit or loss	**-**	**60**	**4 951**	**15 435**	**-**	**20 446**
Financial assets at fair value through other comprehensive income	**2 232**	**8 362**	**21 617**	**41 063**	**-**	**73 274**
Financial assets at amortised cost	**-**	**-**	**-**	**1 062**	**-**	**1 062**
Deposits and balances due from banking institutions	**1 721**	**-**	**-**	**-**	**-**	**1 721**
Due from group companies	**22 440**	**4 733**	**-**	**-**	**715**	**27 888**
Loans and advances to customers	**268 103**	**2 177**	**9 878**	**55 556**	**-**	**335 714**
Total assets	**294 496**	**15 332**	**36 446**	**113 116**	**30 314**	**489 704**
Liabilities						
Deposits and balances due to banking institutions	**6 336**	**1 396**	**3 953**	**-**	**-**	**11 685**
Due to Central Bank of Kenya	**13 047**	**-**	**-**	**-**	**-**	**13 047**
Due to group companies	**5 295**	**1 042**	**-**	**9 096**	**891**	**16 324**
Deposits from customers	**115 260**	**50 343**	**78 609**	**122 691**	**-**	**366 903**
Borrowings	**5 753**	**13 959**	**-**	**4 312**	**-**	**24 024**
Total liabilities and equity	**145 691**	**66 740**	**82 562**	**136 099**	**891**	**431 983**
Interest rate sensitivity gap	**148 805**	**(51 408)**	**(46 116)**	**(22 983)**	**29 423**	**57 721**

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42. Risk management (continued)

42.3 Market risk (continued)

42.3.2 Interest rate risk (continued)

42.3.2.2 Interest rate sensitivity analysis (continued)

Bank	Up to 1 month	1 - 3 months	4 - 12 months	Over 1 year	Non-interest bearing	Total
2022	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**	**Shs'million**	**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

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 2023 Shs'million**	**1% Decrease in interest rates 2023 Shs'million**	1% Increase in interest rate 2022 Shs'million	1% Decrease in interest rates 2022 Shs'million
Changes in interest				
Increase/(decrease) in interest received	**2 952**	**(2 680)**	2 585	(2 581)
Increase/(decrease) in interest paid	**(1 640)**	**925**	(1 900)	1 249
Increase/(decrease) in profit before tax	**1 312**	**(1 755)**	685	(1 332)
(Decrease)/increase in income tax	**(394)**	**527**	(205)	400
Increase/(decrease) in equity	**918**	**1 228**	480	(932)

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42. Risk management (continued)

42.4 Liquidity risk

Confidence in an organisation, 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.

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42. Risk management (continued)

42.4 Liquidity risk (continued)

Stress and scenario testing (continued)

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.

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 2023

42. Risk management (continued)

42.4 Liquidity risk (continued)

	Undiscounted maturity					Discounted contractual maturity
	On demand	Within 1 year	1 – 5 years	More than 5 years	Total	Total
Group and Bank	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million
2023						
Non-derivative financial assets						
Cash and balances with Central Bank of Kenya	16 910	–	–	–	16 910	16 910
Financial assets at fair value through profit or loss	–	5 789	18 200	1 842	25 831	20 446
Financial assets at fair value through other comprehensive income	–	36 350	38 451	32 866	107 667	73 644
Financial assets at amortised cost	–	–	1 278	–	1 278	1 062
Deposits and balances due from banking institutions	1 724	–	–	–	1 724	1 724
Due from group companies	329	31 219	–	–	31 548	27 287
Loans and advances to customers	–	138 258	123 428	205 309	466 995	335 714
Total non-derivative financial assets	**18 963**	**211 616**	**181 357**	**240 017**	**651 953**	**476 787**
Non-derivative financial liabilities						
Balances due to Central Bank of Kenya	11 685	–	–	–	11 685	11 685
Amounts owing to related parties	–	13 047	–	–	13 047	13 047
Deposits from customers	725	18 065	–	–	18 790	16 324
Deposits and balances due to banking institutions	229 622	137 257	2 724	–	369 603	362 749
Borrowings	–	–	1 945	32 522	34 467	24 024
Lease liability	–	688	1 878	–	2 566	1 909
Other liabilities and accrued expenses	1 704	17 738	–	–	19 442	17 023
Total non-derivative financial liabilities	**243 736**	**186 795**	**6 547**	**32 522**	**469 600**	**446 761**
Liquidity gap	**(224 773)**	**24 821**	**174 810**	**207 495**	**182 353**	**30 026**
Off - statement of financial position						
Guarantee and performance bonds	24 901	–	–	–	24 901	24 901
Loan commitments	12 231	56 374	–	–	68 605	68 605
Letters of credit	29 392	–	–	–	29 392	29 392
Total off - statement of financial position	**66 524**	**56 374**	**–**	**–**	**122 898**	**122 898**

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42. Risk management (continued)

42.4 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 contractual 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 and balances due to banking institutions	9 018	-	-	-	9 018	9 018
Deposits from customers	193 578	118 789	3 522	-	315 889	303 751
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

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42. Risk management (continued)

42.4 Liquidity risk (continued)

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 2023	On demand Shs'million	Within 1 year Shs'million	1 – 5 years Shs'million	Total Shs'million
Cash and balances with Central Bank of Kenya	**29 599**	**-**	**-**	**29 599**
Financial assets at fair value through other comprehensive income	**-**	**33 616**	**40 028**	**73 644**
Assets held for managing liquidity	**29 599**	**33 616**	**40 028**	**103 243**
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

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 2023	Notional amount	On demand	Within 1 year	More than 5 years
Derivative liabilities held for trading	**(103 427)**	**-**	**-**	**-**
Outflow		**(103 427)**	**-**	**-**
	(103 427)	**(103 427)**	**-**	**-**
31 December 2022				
Derivative liabilities held for trading	(141 534)	-	-	-
Outflow	-	(141 534)	-	-
	(141 534)	(141 534)	-	-

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42. Risk management (continued)

42.5 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.

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42. Risk management (continued)

42.5 Capital risk management (continued)

Regulatory Capital (continued)

Bank	Regulatory minimum	As at 31 Dec 2023 Shs'million	As at 31 Dec 2022 Shs'million
Tier 1	10.5%	**13.6%**	14.6%
Total capital	14.5%	**18.1%**	18.6%
Tier 1 Capital	**1 000**	**60 169**	55 607
Ordinary share capital		**2 716**	2 716
Retained earnings		**59 830**	53 164
Less: Deferred tax asset		**(2 377)**	(273)
Tier 2 Capital		**19 729**	15 506
Subordinated debt		**19 729**	15 506
Total regulatory capital	**1 000**	**79 898**	71 113
Total risk weighted assets		**442 485**	382 150
Total shareholders' equity/capital resources		**65 424**	60 811
Core capital/total deposit liabilities	**8.0%**	**16.7%**	18.4%
Liquidity ratio	**20.0%**	**31.1%**	33.6%

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43. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed 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 amortisation.

Group	Within 12 months	After 12 months	Total
As at 31 December 2023	Shs'million	Shs'million	Shs'million
Assets			
Cash and balances with Central Bank of Kenya	29 599	–	29 599
Loans and advances to banks	1 721	–	1 721
Financial assets at fair value through profit or loss	20 446	–	20 446
Derivative financial instruments	3 198	–	3 198
Financial assets at FVOCI	33 616	40 028	73 644
Financial assets at amortised cost	–	1 062	1 062
Due from group companies	27 287	–	27 287
Loans and advances to customers	137 685	198 029	335 714
Other assets and prepaid expenses	14 333	–	14 333
Non-current assets held for sale	–	47	47
Property and equipment	–	3 286	3 286
Other intangible assets	–	703	703
Leasehold land	–	31	31
Deferred income tax	–	8 724	8 724
Total assets	267 885	251 910	519 795
Liabilities			
Deposits from banks	11 685	–	11 685
Due to Central Bank of Kenya	13 047	–	13 047
Derivative financial instruments	3 250	–	3 250
Due to group companies	16 324	–	16 324
Deposits from customers	360 690	2 059	362 749
Current income tax	589	–	589
Borrowings	–	24 024	24 024
Other liabilities and accrued expenses	18 932	–	18 932
Total liabilities	424 517	26 083	450 600
Net	(156 632)	225 827	69 195

Notes to the annual financial statements

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43. Maturity analysis of assets and liabilities (continued)

Group	Within 12 months	After 12 months	Total
As at 31 December 2022	Shs'million	Shs'million	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	42 905	-	42 905
Derivative financial instruments	2 867	-	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	184 721	292 513	477 234
Liabilities			
Deposits from banks	9 018	-	9 018
Derivative financial instruments	1 233	-	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	295 263	118 358	413 621
Net	(110 542)	174 155	63 613

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43. Maturity analysis of assets and liabilities (continued)

Bank **As at 31 December 2023**	**Within 12 months** **Shs'million**	**After 12 months** **Shs'million**	**Total** **Shs'million**
Assets			
Cash and balances with Central Bank of Kenya	**29 599**	**–**	**29 599**
Loans and advances to banks	**1 721**	**–**	**1 721**
Financial assets at fair value through profit or loss	**20 446**	**–**	**20 446**
Derivative financial instruments	**3 198**	**–**	**3 198**
Financial assets at FVOCI	**33 616**	**39 658**	**73 274**
Financial assets at amortised cost	**–**	**1 062**	**1 062**
Due from group companies	**27 888**	**–**	**27 888**
Loans and advances to customers	**137 685**	**198 029**	**335 714**
Other assets and prepaid expenses	**14 285**	**–**	**14 285**
Investment in subsidiaries	**–**	**463**	**463**
Non-current assets held for sale	**–**	**47**	**47**
Property and equipment	**–**	**3 282**	**3 282**
Other intangible assets	**–**	**659**	**659**
Leasehold land	**–**	**31**	**31**
Deferred income tax	**–**	**8 632**	**8 632**
Total assets	**268 438**	**251 863**	**520 301**
Liabilities			
Deposits from banks	**11 685**	**–**	**11 685**
Due to Central Bank of Kenya	**13 047**	**–**	**13 047**
Derivative financial instruments	**3 250**	**–**	**3 250**
Due to group companies	**16 324**	**–**	**16 324**
Deposits from customers	**364 844**	**2 059**	**366 903**
Current income tax	**793**	**–**	**793**
Borrowings	**–**	**24 024**	**24 024**
Other liabilities and accrued expenses	**18 851**	**–**	**18 851**
Total liabilities	**428 794**	**26 083**	**454 877**
Net	**(160 356)**	**225 780**	**65 424**

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43. 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
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	42 905	-	42 905
Derivative financial instruments	2 867	-	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
	184 853	292 438	477 291
Liabilities			
Deposits from banks	9 018	-	9 018
Derivative financial instruments	1 233	-	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	298 122	118 358	416 480
	(113 269)	174 080	60 811
Net	(143 521)	204 332	60 811

44. Fair value disclosures

Fair value hierarchyis 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 shows the Group's assets and liabilities that are recognised and subsequently measured at fair value and are analysed by valuation techniques. The classification of assets and liabilities held at fair valueis based on the lowest level input that is significant to the fair value measurement in its entirety

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44. Fair value disclosures (continued)

44.1 Assets and liabilities held at fair value hierarchy

Group

2023 **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	-	**20 446**	-	**20 446**
Derivatives financial assets	-	**3 198**	-	**3 198**
Fair value through OCI:				
Government securities	-	**73 644**	-	**73 644**
Financial liabilities				
Fair value through profit or loss:				
Derivatives financial liabilities	-	**(3 250)**	-	**(3 250)**
	-	**94 038**	**-**	**94 038**

Group **2022**				
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 and loss				
Derivatives financial liabilities	-	(1 233)	-	(1 233)
	-	135 124	-	135 124

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44. Fair value disclosures (continued)

44.1 Assets and liabilities held at fair value hierarchy

Bank

2023 **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	-	**20 446**	-	**20 446**
Derivatives financial assets	-	**3 198**	-	**3 198**
Fair value through OCI:				
Government securities	-	**73 274**	-	**73 274**
Financial liabilities				
Fair value through profit or loss:				
Derivatives financial liabilities	-	**(3 250)**	-	**(3 250)**
	-	**93 668**	-	**93 668**

Bank **2022**				
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 and loss				
Derivatives financial liabilities	-	(1 233)	-	(1 233)
	-	134 732	-	134 732

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.

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44. Fair value disclosures (continued)

44.2 Financial assets and financial liabilities not held at amortised fair value

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.

2023 **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 balances with Central Bank of Kenya	**29 599**	**29 599**	**-**	**29 599**	**-**
Loans and advances to banks	**1 721**	**1 721**	**-**	**-**	**1 721**
Government securities	**1 062**	**1 050**	**-**	**1 050**	**-**
Due from group companies	**22 287**	**22 287**	**-**	**-**	**22 287**
Loans and advances to customers	**335 714**	**339 959**	**-**	**-**	**339 959**
Total	**390 383**	**394 616**	**-**	**30 649**	**363 967**
Liabilities at amortised cost					
Deposits from banks	**11 685**	**11 685**	**-**	**11 685**	**-**
Repurchase agreements	**13 047**	**13 047**	**-**	**-**	**13 047**
Due to group companies	**16 324**	**16 324**	**-**	**-**	**16 324**
Deposits from customers	**362 749**	**362 749**	**-**	**-**	**362 749**
Borrowings	**24 024**	**15 757**	**-**	**-**	**15 757**
Other liabilities and accrued expenses	**18 932**	**18 932**	**-**	**-**	**18 932**
Total	**446 761**	**438 494**	**-**	**11 685**	**426 809**
2022					
Assets at amortised cost					
Cash and balances with Central Bank of Kenya	24 211	24 211	-	24 211	-
Loans and advances to banks	4 957	4 957	-	-	4 957
Due from group companies	8 881	8 881	-		8 881
Loans and advances to customers	283 579	331 210	-	-	331 210
Total	321 628	369 259	-	24 211	345 048
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	-	-	13 517
Other liabilities and accrued expenses	18 927	18 927	-	-	18 927
Total	412 267	406 011	-	-	406 011

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.

Customer deposits payable within 12 months typically constitute deposits that are payable within 6 months (fixed) or call deposits (payable at the option of demand by the customer). The fair value for due from group companies, deposits from customers, deposits from banks and other liabilities and accrued expense is therefore estimated to approximate the carrying amount due to its short-term nature.

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.

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44. Fair value disclosures (continued)

44.2 Financial assets and financial liabilities not held at amortised fair value (continued)

2023 **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	**29 599**	**29 599**	**-**	**29 599**	**-**
Loans and advances to banks	**1 721**	**1 721**	**-**	**-**	**1 721**
Government securities	**1 062**	**1 050**	**-**	**1 050**	**-**
Due from group companies	**27 888**	**27 888**	**-**	**-**	**27 888**
Loans and advances to customers	**335 714**	**339 959**	**-**	**-**	**339 959**
Total	**395 984**	**400 217**	**-**	**30 649**	**369 568**
Liabilities at amortised cost					
Deposits from banks	**11 685**	**11 685**	**-**	**11 685**	**-**
Repurchase agreements	**13 047**	**13 047**	**-**	**-**	**13 047**
Due to group companies	**16 324**	**16 324**	**-**	**-**	**16 324**
Deposits from customers	**366 903**	**366 903**	**-**	**-**	**366 903**
Borrowings	**24 024**	**15 757**	**-**	**-**	**15 757**
Other liabilities and accrued expenses	**18 851**	**18 851**	**-**	**-**	**18 851**
Total	**450 834**	**442 567**	**-**	**11 685**	**430 882**
2022					
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	-	-	331 210
Total	321 938	369 569	-	24 211	345 358
Liabilities at amortised cost					
Deposits from banks	9 018	9 018	-	-	9 018
Due to group companies	60 798	60 798	-	-	60 798
Customer deposits	306 663	306 663	-	-	306 663
Borrowings	19 773	14 370	-	-	14 370
Other liabilities and accrued expenses	18 874	18 874	-	-	18 874
Total	415 126	409 723	-	-	409 723

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.

Customer deposits payable within 12 months typically constitute deposits that are payable within 6 months (fixed) or call deposits (payable at the option of demand by the customer). The fair value for due from group companies, deposits from customers, deposits from banks and other liabilities and accrued expenses is therefore estimated to approximate the carrying amount due to its short-term nature.

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.

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44. Fair value disclosures (continued)

44.3 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 11 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

44.4 Valuation techniques for the levels 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%

45. Segmental reporting

45.1. 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.

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45.	**Segmental reporting (continued)**	**Corporate Banking Shs'million**	**Consumer Banking Shs'million**	**Total Shs'million**
45.2.	**Statement of comprehensive income**			
	Group			
	2023			
	Net interest income	**12 620**	**27 424**	**40 044**
	Net fee and commission income	**1 533**	**5 787**	**7 320**
	Net trading income	**4 309**	**1 975**	**6 284**
	Other operating income	**-**	**55**	**55**
	Total income	**18 462**	**35 241**	**53 703**
	Impairment losses on financial instruments	**(923)**	**(7 451)**	**(8 374)**
	Net operating income	**17 539**	**27 790**	**45 329**
	Operating expenses			
	Depreciation and amortisation	**(48)**	**(942)**	**(990)**
	Other operating expenses	**(4 136)**	**(16 525)**	**(20 661)**
	Total operating expenses	**(4 184)**	**(17 467)**	**(21 651)**
	Profit before tax	**(4 124)**	**(3 187)**	**(7 311)**
	Taxation	**9 231**	**7 136**	**16 367**
	Profit for the year	**9 231**	**7 136**	**16 367**
	2022			
	Net interest income	8 300	24 015	32 315
	Net fee and commission income	1 334	4 839	6 173
	Net trading income	5 049	1 789	6 838
	Other operating income	100	(93)	7
	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

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45. Segmental reporting (continued)

45.3 Statement of financial position

	Corporate Banking Shs'million	Consumer Banking Shs'million	Total Shs'million
Group			
2023			
Loans and advances to customers	**153 219**	**182 495**	**335 714**
Loans and advances to banks	**1 721**	**-**	**1 721**
Other assets	**57 519**	**124 841**	**182 360**
	212 459	**307 336**	**519 795**
Liabilities			
Deposits from customers	**96 116**	**266 633**	**362 749**
Other liabilities	**63 217**	**24 634**	**87 851**
	159 333	**291 267**	**450 600**
Group			
2022			
Assets			
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
Other liabilities	86 156	23 714	109 870
	150 594	263 027	413 621

46. 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 2023 and 31 December 2022. 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 2023 (2022: Nil).

	Effects of offsetting in the SOFP	Related amounts not offset		
Group and Bank	Amounts presented in the SOFP	Amounts subject to master netting agreement	Financial instrument collateral	Net amount
2023	Shs'million	Shs'million	Shs'million	Shs'million
Financial assets				
Loans and advances to customers	**335 714**	**-**	**(2 285)**	**333 429**
	335 714	**-**	**(2 285)**	**333 429**
Liabilities				
Deposits from customers	**362 749**	**-**	**(2 285)**	**360 464**
	362 749	**-**	**(2 285)**	**360 464**

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46. Offsetting financial assets and financial liabilities (continued)

	Effects of offsetting in the SOFP	Related amounts not offset		
Group and Bank	Amounts presented in the SOFP	Amounts subject to master netting agreement	Financial instrument collateral	Net amount
2022	Shs'million	Shs'million	Shs'million	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

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.

47. Related parties

Absa Bank Kenya PLC is a subsidiary of Absa Group Limited, the ultimate parent, which is listed on the Johannesburg Stock Exchange. 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.

In the ordinary course of business, the Bank enters into various transactions with related parties which are governed under terms that are no more favourable than those arranged with non-related parties. In addition, related parties transactions are carried out in accordance with Organisation of Economic Cooperation and Development (OECD) Guidelines, local laws and regulations and with requisite Board approval.

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

	2023 Shs' million	2022 Shs' million
Non-deferred cash payments	**208**	232
Post-employment benefit contributions	**27**	28
Salaries and other short-term benefits	**331**	351
Share-based payments	**205**	115
	771	726

	2023 Shs' million	2022 Shs' million
The compensation paid to directors was in respect of:		
Services rendered as directors of the Bank	**54**	47
	54	47

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47. Related parties (continued)

b) Statement of comprehensive income

	Relationship	Interest received Shs'million	Interest paid Shs'million	Recharges Shs'million
2023				
Group				
Absa Group Limited	Parent	**661**	**3 337**	**1 123**
Absa Bank Mauritius	Sister	**-**	**245**	**-**
		661	**3 582**	**1 123**
Bank				
Absa Group Limited	Parent	**661**	**3 337**	**1 123**
Absa Bank Mauritius	Sister	**-**	**245**	**-**
Absa Bancassurance Intermediary Limited	Subsidiary	**-**	**222**	**18**
Absa Asset Management Limited	Subsidiary	**-**	**28**	**-**
Absa Bank Mauritius	Sister	**661**	**3 832**	**1 141**
		587	**1 694**	**1 314**
2022				
Group				
Absa Group Limited	Parent	132	1 087	1 314
Absa Bank Mauritius	Sister	455	607	-
		587	1 694	1 314
Bank				
Absa Group Limited	Parent	132	1 087	1 314
Absa Bank Mauritius	Sister	455	607	-
Absa Bancassurance Intermediary Limited	Subsidiary	-	131	18
Absa Asset Management Limited	Subsidiary	-	8	-
Absa Bank Mauritius	Sister	587	1 833	1 332
		587	1 694	1 314

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.

The weighted average effective interest rate at 31 December 2023 on amounts due from group companies was 3.7% (2022:3.7%) and on amounts due to group companies was 2.1% (2022: 2.1%).

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.

c) Incidental business activities

The Bank offers additional services outside banking through its subsidiaries whereby it acts as a distribution channel in the provision of authorised financial services or products as guided by the Prudential Guidelines issued by the Central Bank. The Bank offers wealth management and investment advisory, insurance brokerage services and stock brokerage services through its subsidiaries Absa Asset

Management, Absa Bancassurance Intermediary Limited and Absa Securities Limited respectively.

In the year, the subsidiaries generated revenues and incurred the costs as disclosed below:

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47. Related parties (continued)

c) Incidental business activities (continued)

2023	Absa Asset Management Shs' million	Absa Bancassurance Intemediary Limited Shs' million	Absa Securities Limited Shs' million
Total income	**224**	**1 484**	**79**
Total expenses	**(110)**	**(166)**	**(93)**
Profit before tax	**114**	**1 318**	**(14)**
Profit after tax	**80**	**921**	**(9)**
2022			
Total income	158	1 216	76
Total expenses	(55)	(282)	(96)
Profit before tax	103	934	(21)
Profit after tax	72	663	(16)

d) Due from Group companies

		Group		Bank	
	Relationship	2023 Shs'million	2022 Shs'million	2023 Shs'million	2022 Shs'million
Absa Group Limited	Parent	**27 092**	8 650	**27 092**	8 650
Absa Bank Uganda	Sister	**38**	19	**38**	19
Absa Bank Tanzania	Sister	**74**	57	**74**	57
Absa Life Assurance Kenya	Sister	**58**	135	**4**	4
First Assurance Kenya	Sister	**25**	20	**9**	8
Absa Bancassurance Intermediary Limited	Subsidiary	**-**	-	**337**	207
Absa Securities Limited	Subsidiary	**-**	-	**184**	149
Absa Asset Management Limited	Subsidiary	**-**	-	**150**	97
		27 287	8 881	**27 888**	9 191

e) Due to Group companies

Absa Group Limited	Parent	**(16 276)**	(51 248)	**(16 276)**	(51 248)
Absa Bank Mauritius	Sister	**(1)**	(9 384)	**(1)**	(9 384)
Absa Bank Zambia	Sister	**(1)**	(1)	**(1)**	(1)
Absa Bank Uganda	Sister	**(34)**	(48)	**(34)**	(48)
Absa Bank Tanzania	Sister	**(2)**	(68)	**(2)**	(68)
National Bank of Commerce	Sister	**(10)**	(43)	**(10)**	(43)
Absa Bank Botswana	Sister	**-**	(6)	**-**	(6)
		(16 324)	(60 798)	**(16 324)**	(60 798)

At 31 December 2023 advances to directors or companies controlled by directors or their families amounted to Shs 56 million (2022: Shs 33 million). Interest income earned amounted to Shs 6 million (2022: 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. (2022: Nil).

During the year the directors maintained various deposit accounts with the Bank which included current, savings and fixed deposit accounts. At 31 December 2023, balances relating to directors deposits amounted to Shs 23 million (2022: Shs 23 million).

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47. Related parties (continued)

f) Guarantee

In the year ending 31 December 2023, there was no guarantee given or received to/from any related party (2022: NIL).

48. 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	
48.1	**Commitments**	**2023 Shs'million**	2022 Shs'million
	Undrawn overdraft facilities	**12 231**	11 193
48.2	**Contingent liabilities**		
	Letters of credit	**29 392**	35 403
	Guarantee and performance bonds	**24 901**	22 242
	Unutilised lines of credit	**56 374**	39 266
		110 667	96 911

Pledged assets amounted to Shs 1 250 million (2022: 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 7 515 million (2022: Shs 4 860 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.

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48. Commitments and contingencies (continued)

48.3 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.

48.4 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 33 million (2022: Shs 46 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.

Group and Bank	**2024 Shs million**	2023 Shs million
Within one year	**33**	46
After one year but not more than five years	**148**	199
	181	245

49. Dividends per share

The Directors recommend a final dividend of Shs 1.35 per share in respect of the year ended 31 December 2023 (2022: Shs 1.15). An interim dividend of Shs 0.20 (2022: Shs 0.20) was paid during the year amounting to Shs 1 086 million (2022 Shs 1 086). This will bring the total dividend for the year to Shs 1.55 (2022: Shs 1.35) per share amounting to Shs 7 333 million (2022: 6 246 million).

Payment of dividends is subject to withholding tax at a rate of 5% for residents and 10% for non-residents.

50. Subsequent events

The estimates and judgements applied to determine the financial position at 31 December 2023, 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 2023 and the date of authorisation of these consolidated annual financial statements.

Notes to the annual financial statements

for the year ended 31 December 2023

51. 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 2023. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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 did not have a material impact on the Group's financial statements.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

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 recognise 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.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback (continued)

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.

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 has reviewed its accounting policy information disclosures and ensured consistency with the amended requirements.

Notes to the annual financial statements

for the year ended 31 December 2023

51. New accounting pronouncements (continued)

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 amendments did not have an impact on the Group's financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted but will need to be disclosed.

The amendments are not expected to have a material impact on the Group's financial statements.

Lack of Exchangeability – Amendments to IAS 21

Under the amendments, the Group will need to provide new disclosures to help users assess the impact of using an estimated exchange rate on the financial statements. These disclosures might include:

- the nature and financial impacts of the currency not being exchangeable;
- the spot exchange rate used;
- the estimation process; and
- risks to the company because the currency is not exchangeable.

The amendments apply for annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted.

Notes to the annual financial statements

for the year ended 31 December 2023

51. New accounting pronouncements (continued)

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 recognised 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.

absa = ● Representative offices

Notice of the Annual General Meeting

Notice is hereby given that the **forty–fifth (45th) Annual General Meeting** of the Shareholders of **Absa Bank Kenya PLC** (the "Company") will be held via virtual means on **Thursday May 16, 2024** 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) Audited Financial Statements, Directors' and Auditors' reports for the year ended December 31, 2023:

To receive, consider and if thought fit, adopt the Audited Financial Statements for the year ended December 31, 2023 together with the reports of the Directors, the Board Chairman, the Managing Director and the Auditor.

(ii) Dividend

To ratify the interim dividend of Kshs. 0.20 per ordinary share paid on October 12, 2023 and to declare a final dividend of Kshs. 1.35 per ordinary share payable net of withholding tax, on or about May 16, 2024 to shareholders on the Register of Members as at the close of business on April 30, 2024.

(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:

1. Louis Otieno
2. Charles Murito

b) 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:

1. Christine Sabwa (Chair)
2. Louis Otieno
3. Fulvio Tonelli
4. Patricia Ithau
5. 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, 2024.

(v) Appointment and Remuneration of Auditors

To consider and if thought fit, re-appoint KPMG Kenya, Certified Public Accountants, (who have expressed their willingness to continue in office in accordance with section 721 of the Companies Act No. 17 of 2015) as the External Auditors of the Company, and to authorize the Board of Directors to fix their remuneration in line with section 724 of the Companies Act.

(vi) Any Other Business

To transact any other business of the Company for which due notice has been received.

By Order of the Board

Wilson K. Murage
Company Secretary (Acting)

April 23, 2024

Notice of the Annual General Meeting

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. All shareholders will be pre-registered for the AGM using their bio-data details with the company. Each shareholder will receive a personalized link with which they will use to confirm their attendance or dialling ***483*072#** across all Kenyan Networks and following the various prompts regarding the registration process. 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. Confirmation of attendance for the AGM opens on **Thursday May 2, 2024 at 8:00am** (Kenya time) and will close on **Wednesday May 15, 2024 at 12:00noon** (Kenya time). Shareholders will not be able to confirm attendance after Wednesday May 15, 2024 at 12.00noon.

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 2023.

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; or
   (ii) Dialling the USSD code ***483*072#** and following the menu prompts to the "Ask Questions" menu option and entering their question as a text message
   (iii) Sending their written questions by email to digital@candrgroup.co.ke; or
   (iv) 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
   (v) 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 14, 2024 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.

   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 or dialling USSD Code ***483*072#** 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**.

Notice of the Annual General Meeting

   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 14, 2024**. 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 15, 2024 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, 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. Shareholders without internet access can access the Virtual AGM voting menu via USSD ***483*072#**.

   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. 200,000 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.

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-Fifth Annual General Meeting of Absa Bank Kenya PLC to be held on **Thursday May 16, 2024** and at any adjournment thereof. As witness
*I/we affix *my/our *hand/hands this________________day of_____________2024.

Signature(s)____

Unless otherwise instructed, the proxy will vote as *he/she thinks fit.

Notes

1. In accordance with Section 298(1) of the Companies Act, 2015 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. This 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 theproxy shall be given under its common seal (if any) or under the hand(s) of an authorized officer(s) or duly authorized attorney(s) 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 14, 2024**. 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 15, 2024 to allow time to address any issues.

2. 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 AGM Notice and this proxy form; ii) the Company's Integrated Report together with the audited financial statements for the year 2023.

Notes

www.absabank.co.ke

Registered office
Absa Bank Headquarters
Waiyaki Way
PO Box 30120 – 00100
Nairobi