### ANNUAL REPORT AND FINANCIAL STATEMENTS

AT

**31 DECEMBER 2024** 

# ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

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# <u>DIB BANK KENYA LIMITED</u>

### **CORPORATE INFORMATION**

**DIRECTORS** 

Dr. Adnan Chilwan

Ms. Rose Kagucia

- Chairman

- Managing Director/Ag. CEO (Resigned 1 March 2024)

Dr. Steve Mainda

Mr. Michael Murphy

Mr. Mohamed Al Sharif

Mr. Anwar Belgaumi

Ms.Mary Kanuku

- Non-Executive Director - Non-Executive Director

- Non-Executive Director

- Non-Executive Director

- Managing Director/

Ag.CEO (Appointed 2 Aug 2024)

AUDIT COMMITTEE

Mr. Michael Murphy

Dr. Steve Mainda

Mr. Mohamed Al Sharif

- Chairperson

CREDIT COMMITTEE

Dr. Steve Mainda

Mr. Michael Murphy

Mr Mohamed Al Sharif

- Chairperson

RISK AND IT COMMITTEE Mr. Michael Murphy

Dr. Steve Mainda

Mr. Anwar Belgaumi

- Chairperson

- Chairperson

**BOARD NOMINATIONS** AND REMUNERATION

COMMITTEE

Dr. Steve Mainda

Mr. Michael Murphy

Mr. Anwar Belgaumi

BANK SECRETARY

Ms. Njeri Waitimu

Certified Public Secretary (Kenya)

P.O Box 6450 – 00200

Nairobi, Kenya

REGISTERED OFFICE

Upper Hill Building

Bunyala Road/Lower Hill Road Junction

P.O Box 6450 - 00200

Nairobi, Kenya

**AUDITOR** 

KPMG Kenya

Certified Public Accountants

8th Floor, ABC Towers

Waiyaki Way

P.O Box 40612 - 00100

Nairobi, Kenya

# **CORPORATE INFORMATION (CONTINUED)**

**LEGAL ADVISERS** 

MMC Arches

Spring Valley Crescent off Peponi Road, Westlands P.O Box 75362 - 00200

Nairobi, Kenya

Anjarwalla & Khanna (ALN Kenya) ALN House, Eldama Ravine Close off Eldama Ravine Road, Westlands,

P.O Box 200 - 00606

Nairobi, Kenya

PRINCIPAL CORRESPONDENT BANKS Frankfurt

New York

Barclays Bank Plc

Dubai

Barclays Bank Frankfurt Dubai Islamic Bank PJSC

Johannesburg

ABSA Bank

USA

JP Morgan Chase Bank

India

SBM Bank India

# REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2024

The Directors submit their report together with the audited financial statements for the year ended 31 December 2024, in accordance with Section 653(1) of the Kenyan Companies Act, 2015, and Section 22 of the Banking Act which discloses the state of affairs of DIB Bank Kenya Limited (the "Bank").

#### 1. Incorporation

The Bank is incorporated in the Republic of Kenya under the Kenyan Companies Act, 2015. The Bank received its Banking Licence from the Central Bank of Kenya on 13 April 2017.

#### 2. Activities

The principal activities of the Bank, which is licensed under the Banking Act, is the provision of banking, financial and related services.

#### 3. Bank results

The following is the summary of the results for the year ended 31 December 2024:

|   | 2024<br>KShs'000             | 2023<br>KShs'000     |
|---|------------------------------|----------------------|
| Profit/(loss) before tax<br>Deferred tax (expense)/credit | 103,431<br>( <u>70,955</u> ) | (256,576)<br>_57,370 |
| Profit/(loss) after tax                                   | <u>32,476</u>                | ( <u>199,206</u> )   |

#### 4. Business review

#### External environment

In 2024, the Kenyan banking sector recorded a positive growth of 5.1%, driven by the stabilization of the local currency, which had experienced significant devaluation in the previous year. The prior period was marked by economic volatility, including exchange rate fluctuations that adversely impacted the sector's performance. This positive growth was reflected across most sectors of the economy.

The sector operated within a landscape shaped by exchange rate stability and monetary policy adjustments. The Central Bank of Kenya (CBK) reduced the Central Bank Rate (CBR) from 13% at the beginning of the year to 11.25%, aiming to encourage commercial banks to lower their lending rates. However, these monetary policy measures did not result in immediate growth, with credit expansion to the private sector growing modestly by 4%, largely due to the persistence of high profit rates for the better part of 2024.

Looking ahead, the measures implemented to ease access to credit and support Kenya's economic recovery are expected to yield positive outcomes in the coming year.

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# REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2024(CONTINUED)

#### 4. Business review (Continued)

#### The Bank's performance

The Bank reported a profit before tax of KShs 103 million (2023 loss before tax KShs 257 million) representing a 140% improvement from prior year. Income from financing and investing activities grew by 41% to KShs 2,553 million from KShs 1,809 million in 2023.

Financing assets grew by 3% to KShs 17.8 billion from KShs 17.4 billion with customer deposits growing by 11% to KShs 22.6 billion from KShs 20.5 billion reported in 2023.

#### Looking ahead

The Bank is in a positive financial position, having achieved a full year profitability of KShs 103,430,000 in 2024. We project to sustain this performance and achieve a profit before tax growth of 278% to KShs 390,522,000. This outlook is supported by a strong local currency balance sheet growth, a key focus on recovery of non-performing accounts, proactive management of financing assets for improved quality, and the implementation of efficient business models coupled with cost optimization.

The Bank remains adequately capitalized and has a well-structured capital plan in place to ensure it maintains sufficient capital levels, supporting business growth while adhering to regulatory ratios set by the Central Bank of Kenya.

The Bank will remain proactive in addressing key risks and uncertainties, such as credit risk, liquidity risk, market risk, operational risk, and settlement risk. The Bank has comprehensive mitigation plans and strategies to effectively navigate and manage these risks as detailed in Note 5 of the financial Statements.

#### 5. Dividends

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2024 (2023 – Nil).

#### 6. Directors

The members of the Board of Directors who served during the year and up to the date of this report are shown on page 1.

#### 7. Statement of disclosure to the Bank's auditor

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

- there is no relevant audit information of which the Bank's auditor is unaware; and
- each director has taken all the steps that they ought to have taken as a director to be aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

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# REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 8. Auditor

The Bank's auditor, KPMG Kenya, has expressed willingness to continue in office in accordance with section 719 of the Kenyan Companies Act, 2015 and Section 24(1) of the Banking Act (Cap 488).

#### 9. Employees

The Directors are pleased to record their appreciation of the efforts of all the employees of the Bank. The average of number of employees in the year is disclosed in Note 9(a) to the financial statements.

### 10. Approval of the financial statements

The financial statements set out on page 13 to 82 were approved and authorised for issue by the Board of Directors on 26 Maye L 2025

BY ORDER OF THE BOARD

**Bank Secretary** 

Date: 26 March 2025

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### STATEMENT ON CORPORATE GOVERNANCE

The Bank's board of Directors is responsible for the governance of the Bank and is accountable to the shareholders for ensuring that the Bank complies with the law, the highest standards of corporate governance and business ethics. The Directors attach great importance to the need to conduct the business and operation of the bank with integrity and in accordance with generally accepted corporate practice and endorse the internationally developed principles of good corporate governance.

#### **Board of Directors**

The full board meets at least four times a year. The Directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues. At least a third of the Directors are independent and non-executive.

Except for direction and guidance on general policy, the board has delegated authority for conduct of day-to-day business to the Chief Executive Officer. The board nonetheless retains responsibility for establishing and maintaining the Bank's overall internal control over financial, operational and compliance issues. Details of attendance for each member of board are as below.

| Directors                   | Number of meetings attended 2024 |  |  |
|-----------------------------|----------------------------------|--|--|
| Dr Adnan Chilwan (Chairman) | 4                                |  |  |
| Dr Steve Mainda             | 4                                |  |  |
| Mr Michael Murphy           | 4                                |  |  |
| Mr Mohamed Al Sharif        | 4                                |  |  |
| Mr Anwar Belgaumi           | 4                                |  |  |
| Ms. Mary Kanuku**           | 2                                |  |  |
| Ms. Rose Kagucia*           | 1                                |  |  |

<sup>\*</sup> Ms. Rose Kagucia resigned as a director of the Bank on 1 March 2024.

# Board performance evaluation

Under the Prudential guidelines issued by the Central Bank of Kenya, the Board of Directors is responsible for ensuring that a rigorous evaluation is carried out of its performance, its committees and individual Directors. This evaluation is conducted annually, and the results are provided to the Central Bank of Kenya.

In the financial year ended 2024, the Board undertook a formal evaluation of its performance and that of its committees and individual Directors. This performance evaluation is an annual exercise aimed at ensuring that the Board remains efficient and effective while discharging its responsibilities. Overall, the results for the evaluation were positive and indicated that the Board and committees were effective and that no major changes were required.

#### Directors' remuneration

One executive Director is paid a monthly salary and is eligible for pension scheme membership. Two other non-executive Directors are paid a monthly fee and sitting allowances for Board meetings and Board sub-committee meetings. Directors emoluments are shown in Note 29.

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<sup>\*\*</sup> Ms. Mary Kanuku was appointed as a director of the Bank on 2 Aug 2024.

# STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

#### Committees of the Board

#### Audit committee

The board has constituted an audit committee that meets as required. Its responsibilities include review of financial information, budgets, development plans, compliance with accounting standards in financial reporting, and liaison with the external auditors, remuneration of external auditors and overseeing internal control systems. Internal and external auditors and other executives attend audit committee meetings as required.

#### Credit committee

The board has constituted a credit committee that meets as required. Its responsibilities include a review of the overall credit policy of the Bank, ensuring that there are effective policies and procedures to effectively manage credit risk, monitor and review all matters, which may materially impact the present and future quality of the institution's credit risk management.

#### Risk management committee

The board has constituted a Risk Management Committee that meets as required. Its responsibilities include carrying out risk assessment and putting in place risk indicators and monitoring the risk.

#### Board nominations and remuneration committee

The board has constituted Nominations and Remuneration Committee. The committee deals with all aspects of appointment of an institution's Directors, review the mix of skills and experience and other qualities in order to assess the effectiveness of the board. The committee is also responsible for overseeing the compensation system in place on behalf of the Board of Directors.

#### Statement on risk management

The Bank recognises the responsibility to manage risks related to its business as a financial institution. The Bank has built strong internal systems to ensure that sound banking practices results in income streams that are commensurate with the risks taken.

The Integrated Risk Management Policy of the Bank is fully committed to adopting best practices in identifying, measuring, controlling and monitoring the risks faced.

#### Corporate governance statement on conflict of interest

The board of Directors has approved a code of conduct that gives disclosure guidance on potential conflicts of interest situations. Reporting procedures are in place for this. The code of conduct has to be signed annually by all staff members.

#### The Bank aims at:

- Integrating risk management into the culture of the organization.
- Eliminating or reducing risk to the lowest acceptable levels.
- Developing risk sensitivity as a core competency of all stakeholders.
- Continually identifying potential risks and pro-actively mitigating them.
- Focusing on key risks and controlling them cost-effectively.

# STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

#### Corporate governance statement on conflict of interest (Continued)

#### The Bank aims at (continued)

The Bank has developed a risk infrastructure that is appropriate to the size and volatility of the business. Decision making at all levels are inspired by the aspiration to be a risk intelligent organization. Risk management is used as an enabler to exploit the potential for increased business by taking informed risks with awareness and control.

#### Compliance

The Bank operates within the requirements of the Banking Act, among other Acts, and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the Bank prepares its financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB) and in the manner required by Kenyan Companies Act, 2015.

Michael Murphy Director

Date: 26 March 2035

Dr. Steve Mainda

Director

### <u>DIB BANK KENYA LIMITED</u>

#### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the financial statements of DIB Bank Kenya Limited (the Bank) set out on pages 13 to 82 which comprise the statement of financial position as at 31 December 2024, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including material accounting policies.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and fairly presenting the financial statements in the circumstances, preparation and presentation of financial statements 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 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

The Directors accept responsibility for the annual 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 Bank and of its profit or loss and cash flows.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe that the Bank 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 set out on pages 13 to 82 were approved and authorized for issue by the Board

of Directors on 26 Maych 2025

Michael Murphy Director

Date: 26 May CL 2025

Dr. Steve-Mainda

Director



KPMG Kenya Certified Public Accountants 8th Floor, ABC Towers Waiyaki Way PO Box 40612 00100 GPO Nairobi, Kenya Telephone +254 20 2806000 Email info@kpmg.co.ke Website www.kpmg.com/eastafrica

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIB BANK KENYA LIMITED

#### Report on the audit of the financial statements

#### **Opinion**

We have audited the financial statements of DIB Bank Kenya Limited ("the Bank") set out on pages 13 to 82, which comprise the statement of financial position as at 31 December 2024, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including material accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2024, and of its financial performance and its 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 financial statements section of our report. We are independent of the 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 financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other information

The Directors are responsible for the other information. The other information comprises information included in the *DIB Bank Kenya Limited Annual Report and Financial Statements at 31 December 2024* but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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.



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIB BANK KENYA LIMITED (CONTINUED)

#### Report on the audit of the financial statements (Continued)

#### Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the
  disclosures and whether the financial statements represent the underlying transactions and events
  in a manner that achieves fair presentation.



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIB BANK KENYA LIMITED (CONTINUED)

Report on the audit of the financial statements (Continued)

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

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

#### Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015 we report to you, sorely based on our audit of the financial statements, that in our opinion, the information given in the Report of the Directors on pages 3 to 5 is consistent with the financial statements.

The engagement Partner responsible for the audit resulting in this independent auditor's report is CPA Jacob Gathecha – Practicing certificate No. P/1610.

For and on behalf of:

KPMG Kenya Certified Public Accountants PO Box 40612 - 00100 Nairobi

Date: 26 March 2025

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2024

|   | Note                                       | 2024<br>KShs'000  | 2023<br>KShs'000   |
|---|--|---|--|
| Income calculated using the effective profit rate method Depositors share of profits  | 6<br>7                                     | 2,553,152<br>( <u>1,648,280</u> )   | 1,809,426<br>( <u>1,071,012</u> )  |
| Net income  |  | 904,872   | 738,414  |
| Fees and commission income Other income/(expenses)  | 8(a)<br>8(b)                               | 991,197<br>809  | 191,260<br>( <u>4,484</u> )  |
| Operating income  |  | 1,896,878   | 925,190  |
| Personnel expenses Other operating expenses Depreciation of property and equipment Depreciation of right of use asset Amortization of intangible assets Interest on lease liabilities | 9(a)<br>9(b)<br>16<br>17(a)<br>18<br>17(b) | ( 496,180)<br>( 524,029)<br>( 113,143)<br>( 68,320)<br>( 88,341)<br>( 22,698) | ( 431,694)<br>( 493,007)<br>( 45,829)<br>( 68,321)<br>( 78,969)<br>( 26,610) |
| Operating profit/(loss)   |  | 584,167   | ( 219,240)   |
| Impairment provision on financing arrangements  | 14(a)                                      | (_480,736)  | (37,336)   |
| Profit/(loss) before tax  | 10(c)                                      | 103,431   | ( 256,576)   |
| Income tax (expense)/credit   | 10(a)                                      | (70,955)  | 57,370   |
| Profit/(loss) for the year  |  | 32,476  | ( 199,206)   |
| Other comprehensive income  |  |   |  |
| Total comprehensive income for the year   |  | <u>32,476</u>   | ( <u>199,206</u> )   |

# STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2024

| ASSETS  | Note     | 2024<br>KShs'000  | 2023<br>KShs'000  |
|---|----------|-------------------|-------------------|
| Cash and balances with Central Bank of Kenya        | 11       | 1,547,464         | 1,247,637         |
| Deposits and balances due from banking institutions | 12       | 5,814,623         | 5,096,235         |
| Financing arrangements (net)                        | 13       | 17,837,036        | 17,366,261        |
| Other assets  | 15       | 1,100,360         | 250,226           |
| Property and equipment                              | 16       | 403,976           | 346,344           |
| Right-of-use asset                                  | 17(a)    | 181,048           | 183,952           |
| Intangible assets                                   | 18       | 442,145           | 406,330           |
| Deferred taxation asset                             | 19       | 1,521,724         | 1,592,679         |
| TOTAL ASSETS  |          | <u>28,848,376</u> | 26,489,664        |
| LIABILITIES   |          |                   |                   |
| Customer deposits                                   | 20       | 22,635,208        | 20,450,801        |
| Deposits and balances due to banking institutions   | 21       | 100,030           | 600,751           |
| Lease liabilities                                   | 22       | 215,294           | 225,974           |
| Other liabilities                                   | 23       | 251,727           | 281,655           |
| Provisions  | 24       | 31,534            | 52,376            |
| TOTAL LIABILITIES                                   |          | 23,233,793        | 21,611,557        |
| SHAREHOLDERS' FUNDS                                 |          |                   |                   |
| Share capital                                       | 25(a)    | 9,626,754         | 8,922,754         |
| Retained earnings - deficit                         |          | ( 4,012,171)      | (4,153,689)       |
| Statutory credit risk reserve                       | 25(b)    |                   | 109,042           |
| TOTAL SHAREHOLDERS' FUNDS                           |          | 5,614,583         | 4,878,107         |
| TOTAL SHAREHOLDERS' FUNDS AND LIAB                  | BILITIES | <u>28,848,376</u> | <u>26,489,664</u> |

The financial statements on pages 13 to 82 were approved and authorised for issue by the Board of Directors on 20 May 2025 and were signed on its behalf by:

Michael Murphy

Director

Mohamed Al Sharif

Director

Dr. Steve Mainda

Director

Njeri Waitimu Bank Secretary

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2024

| 2024:  | Share<br>capital<br>KShs'000 | Statutory<br>credit risk<br>Reserve*<br>KShs'000 | Retained<br>earnings<br>deficit<br>KShs'000                  | Total<br>KShs'000     |
|--|------------------------------|--|--|-----------------------|
| At 1 January 2024  | 8,922,754                    | 109,042  | (4,153,689)  | 4,878,107             |
| <b>Total comprehensive income</b> Profit for the year  | -                            | -  | 32,476   | 32,476                |
| Transfers within equity Transfer from statutory credit risk reserve                            | -                            | (109,042)  | 109,042  | -                     |
| Transaction with equity holders of the   |                              |  |  |                       |
| Bank Issue of shares (Note 25(a))  | 704,000                      | -  |  | 704,000               |
| At 31 December 2024  | 9,626,754                    | -  | (4,012,171)  | 5,614,583             |
|  |                              |  |  |                       |
| 2023:  | Share<br>capital<br>KShs'000 | Statutory<br>credit risk<br>Reserve*<br>KShs'000 | Retained<br>earnings<br>deficit<br>KShs'000                  | Total<br>KShs'000     |
|  | capital                      | credit risk<br>Reserve*                          | earnings<br>deficit  |                       |
| 2023:  | capital<br>KShs'000          | credit risk<br>Reserve*<br>KShs'000              | earnings<br>deficit<br>KShs'000                              | KShs'000              |
| 2023: At 1 January 2023 Total comprehensive income   | capital<br>KShs'000          | credit risk<br>Reserve*<br>KShs'000              | earnings<br>deficit<br>KShs'000<br>(3,924,487)               | KShs'000<br>3,710,598 |
| 2023: At 1 January 2023  Total comprehensive income Loss for the year  Transfers within equity | capital<br>KShs'000          | credit risk<br>Reserve*<br>KShs'000<br>79,046    | earnings<br>deficit<br>KShs'000<br>(3,924,487)<br>( 199,206) | KShs'000<br>3,710,598 |

<sup>\*</sup>The statutory reserve represents an appropriation /(transfer) from retained earnings in compliance with Central Bank of Kenya prudential guidelines on impairment of financing arrangements. It represents the excess of financing arrangements impairment provisions as computed as per the Central Bank of Kenya prudential guidelines over impairment provisions of financing arrangements computed as per IFRS 9 Financial Instruments. The statutory reserve is not distributable and is presented net of tax. Retained earnings relate to the cumulative earnings from operations and is distributable.

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2024

|   | Note           | 2024<br>KShs'000             | 2023<br>KShs'000               |
|---|----------------|------------------------------|--------------------------------|
| Cash flows from operating activities                                    |                |                              |                                |
| Cash generated from operations Payment of interest on lease liabilities | 26(a)<br>17(c) | 643,698<br>( <u>22,698</u> ) | 1,414,070<br>( <u>26,610</u> ) |
| Net cash generated from operating activities                            | i              | 621,000                      | <u>1,387,460</u>               |
| Cash flows from investing activities                                    |                |                              |                                |
| Purchase of equipment<br>Purchase of intangible assets                  | 16<br>18       | ( 170,775)<br>( 124,156)     | ( 277,183)<br>( 104,524)       |
| Net cash used in investing activities                                   |                | (_294,931)                   | ( <u>381,707</u> )             |
| Cash flows from financing activities                                    |                |                              |                                |
| Issue of share capital  | 25 (a)         | 704,000                      | 1,366,715<br>( 9,496)          |
| Payment on termination of lease<br>Lease liabilities principal payments | 17(c)          | (76,096)                     | (58,340)                       |
| Net cash generated from financing activities                            | i              | 627,904                      | 1,298,879                      |
| Increase in cash and cash equivalents                                   |                | 953,973                      | 2,304,632                      |
| Cash and cash equivalents at 1 January                                  |                | 5,794,601                    | 3,492,402                      |
| Effect of movements in exchange rates on cash                           | n balance      | (673)                        | (2,433)                        |
| Cash and cash equivalents at 31 December                                | 26(b)          | <u>6,747,901</u>             | 5,794,601                      |

#### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

#### 1. REPORTING ENTITY

DIB Bank Kenya Limited is a limited company domiciled in Kenya, registered under the Kenyan Companies Act, 2015 and was incorporated on 15 August 2014. The Bank's registered office is as shown on page 1.

#### **DEFINITIONS OF BANK'S PRODUCTS**

The following terms are used in the financial statements with the meaning specified:

#### (a) Murabaha

An Islamic financing transaction which represents an agreement whereby the Bank buys a commodity/good and sells it to a counterparty based on a promise received from that counterparty to buy the commodity according to specific terms and conditions. The selling price comprises of the cost of the commodity/goods and a pre-agreed profit margin.

#### (b) Ijarah

An Islamic financing transaction whereby the Bank purchases an asset for lease according to the customer's request (lessee) based on his promise to lease the asset for a specific period and against certain rent instalments. Ijarah could end by transferring the ownership of the asset to the lessee.

#### (c) Mudaraba

An Islamic investing transaction between the Bank and another party (Rab ul Mal) whereby the latter would provide a certain amount of funds, which the Bank (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of negligence or violation of any of the terms and conditions of the Mudaraba.

#### (d) Customer deposits

Deposits are generated on two modes; Qard and Mudaraba. Deposits taken on the basis of Qard are classified as current accounts while deposits generated on Mudaraba basis are classified as savings and time deposit accounts. Time deposits are based on Wakala where the customer as investor deposits his funds to the bank and the bank invests the funds for a given rate based on the investment plan. No profit or loss is passed to current account depositors. Profit realised in investment pools is distributed among depositors in pre-agreed profit sharing ratio. Rab ul Maal share is distributed among depositors according to weightages assigned at the inception of the profit calculation period.

#### (e) Income paid to depositors

Profit sharing accounts are based on the principle of Mudaraba whereby the Bank and the customer share any profit earned on the customer deposits on a pre-agreed profit sharing ratio. The customer's share of profit is paid in accordance with the terms and conditions of the account. The profit calculation is undertaken at the end of each calendar month.

#### (f) Commodity Murabaha

An Islamic financing arrangement in which a customer purchases a commodity/good from the bank on deferred payment plan, then sells the commodity immediately to obtain liquidity.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 2. BASIS OF PREPARATION

The principal accounting polices applied in the preparation of the financial statements are set out below. These polices have been applied consistently.

#### (a) Statement of compliance

The financial statements are prepared in accordance IFRS Accounting Standards as issued by International Accounting standards Board (IFRS Accounting Standards) and in a manner required by the Kenyan Companies Act, 2015.

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

#### (b) Basis of measurement

The financial statements are prepared under the historical cost basis of accounting except where otherwise stated. Details of material accounting policies are indicated in Note 3.

#### (c) Functional and presentation currency

The financial statements are presented in Kenya shillings (KShs), which is the Bank's functional and presentation currency. All amounts have been rounded to the nearest thousand (KShs '000') unless otherwise indicated.

#### (d) Going concern

The Bank generated a profit before tax of KShs 103,431,000 and had positive cash flows from operating activities of KShs 620,999,000 during the year ended 31 December 2024, and as at that date it had 12-month liquidity gap of KShs 8,172,601,000 (Note 5(b)) (2023-KShs 8,523,773,000) and retained earnings deficit of KShs 4,012,171,000 (2023-KShs 4,153,689,000).

The Bank has operated for 7 years and 7 months as at 31 December 2024. Over the years, the directors have put in place strategies that have eventually yielded profitability through business growth, strategic investments, and cost management. These strategies and including investment in technology are expected to translate into increased revenue from growth and a higher market share as well as operational synergies that will result in improved profitability for the Bank. The Bank achieved full year profitability of KShs 103,431,000 in 2024 and is projected to grow by 278% to KShs 390,522,000 in 2025 which affirms the Bank's ability to continue as a going concern.

As disclosed at Note 5(b), the Bank has a credit line of USD 52 million (KShs 6.7bn) with the parent company from which it can draw on a need basis to mitigate short term liquidity mismatches. In addition, the parent company is fully aware of its responsibilities on capital adequacy requirements and has undertaken to maintain the minimum required capital in DIB Bank Kenya Limited under the Banking Act or as amended from time to time.

Included in the 12-month liquidity gap of KShs 8,172,601,000 are term deposits that have historically been renewed and the directors have the confidence that they will be renewed during the year to ease liquidity pressures over the next 12 months.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 2. BASIS OF PREPARATION (Continued)

#### (d) Going concern (continued)

The Directors have made an assessment of the Bank ability to continue as a going concern and are satisfied that the Bank has the resources to continue in business for the foreseeable future. The parent bank has committed to continue providing support to the Bank to meet its obligations in the foreseeable future. As a result, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

In view of the foregoing, the Directors have prepared the financial statements on the going concern basis.

#### (e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Information on critical accounting estimates and judgements in applying the Bank's accounting policies presented in note 4.

#### 3. MATERIAL ACCOUNTING POLICIES

The material accounting policies applied in the preparation of the financial statements are set out below. These polices have been applied consistently.

#### (a) Application of new and revised IFRS Accounting Standards

#### (i) New standards and interpretations adopted during the year

The Bank adopted the following new standards and amendments during the year ended 31 December 2024, including consequential amendments to other standards with the date of initial application by the Bank being 1 January 2024:

| New standard or amendments  | Effective for<br>annual periods<br>beginning on<br>or after |
|---|---|
| <ul> <li>Lease Liability in a Sale and Leaseback – Amendments<br/>to IFRS 16 Leases</li> </ul>  | 1 Jan 2024  |
| <ul> <li>Classification of liabilities as Current or Non-Current and<br/>Non-current Liabilities with Covenants – Amendments to<br/>IAS 1 Presentation of Financial Statements</li> </ul> | 1 Jan 2024  |
| <ul> <li>Amendments to IAS 7 Statement of Cash Flows and<br/>IFRS 7 Financial Instruments: Disclosures – Supplier<br/>Finance Arrangements</li> </ul>                                     | 1 Jan 2024  |

The above standards adopted in 2024 did not have a material impact on the Bank's financial statements for the year.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (a) Application of new and revised IFRS Accounting Standards (continued)

# (ii) Standards and interpretations not yet effective for the year ended 31 December 2024

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2024 and have not been applied in preparing these financial statements. The Bank does not plan to adopt these standards early. These are summarised below:

|   | Effective for annual periods beginning on or |
|---|--|
| New standard or amendments  | after  |
| Lack of Exchangeability – Amendments to IAS 21 The  | 1 Jan 2025                                   |
| Effects of Changes in Foreign Exchange Rates  |  |
| — Amendments to the Classification and Measurement of   | 1 Jan 2026                                   |
| Financial Instruments – Amendments to IFRS 9  |  |
| Financial Instruments and IFRS 7 Financial  |  |
| Instruments; Disclosure   |  |
| — Annual Improvements to IFRS Accounting Standards –  |  |
| Amendments to:  |  |
| - IFRS 1 First-time Adoption of International   |  |
| Financial Reporting Standards;  |  |
| - IFRS 7 Financial Instruments: Disclosures and it's  |  |
| accompanying Guidance on implementing IFRS 7;   |  |
| - IFRS 9 Financial Instruments;   |  |
| <ul> <li>IFRS 10 Consolidated Financial Statements; and</li> <li>IAS 7 Statement of Cash flows</li> </ul> |  |
|   | 1 Jan 2026                                   |
| Contracts Referencing Nature-dependent Electricity – Amendments to IFRS 9 and IFRS 7                      | 1 Jan 2026                                   |
|   | 1 1 2027                                     |
| — IFRS S1 General Requirements for Disclosure of  | 1 Jan 2027                                   |
| Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures                      |  |
|   | 1.12027                                      |
| IFRS 18 Presentation and Disclosure in Financial  | 1 Jan 2027                                   |
| Statements.   | 1.1.0007                                     |
| — IFRS 19 Subsidiaries without Public Accountability:   | 1 Jan 2027                                   |
| Disclosures   |  |
| — Sale or Contribution of Assets between an Investor and  | To be determined                             |
| its Associate or Joint Venture – Amendments to IFRS   |  |
| 10 Consolidated Financial Statements and IAS 28   |  |
| Investments in Associates and Joint Ventures  |  |

The Standards will be adopted at their effective date (except for the standards and interpretations that are not applicable to the bank). The only standard that is expected to have an impact on the financial statements is IFRS 18 Presentation and disclosure in financial statements IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of profit or loss into one of five categories: operating, investing, financing, income taxes and discontinued operations, whereof the first three are new.

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### <u>DIB BANK KENYA LIMITED</u>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 3. MATERIAL ACCOUNTING POLICIES (Continued)

### (a) Application of new and revised IFRS Accounting Standards (continued)

# (ii) Standards and interpretations not yet effective for the year ended 31 December 2024 - continued

It also requires disclosure of newly defined management-defined performance measures, subtotals of income and expenses, and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements (PFS) and the notes. In addition, narrow-scope amendments have been made to IAS 7 Statement of Cash Flows, which include changing the starting point for determining cash flows from operations under the indirect method, from 'profit or loss' to 'operating profit or loss' and removing the optionality around classification of cash flows from dividends and interest. In addition, there are consequential amendments to several other standard. The Company is assessing the impact for adoption.

#### (b) Revenue recognition

#### (i) Income from financing arrangements and investing activities

Effective profit rate

Profit income and expense for all financial instruments except for those classified at Fair Value Through Profit or Loss (FVTPL) are recognised in 'Income from financing and investing' as 'Profit income' and 'Depositors share of profit' in the profit or loss account using the effective profit method. Whereas IFRS Accounting Standards refers to effective profit rate method, within these financial statements, income from financing arrangements is referred to as profit income.

The effective profit rate is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the effective profit rate includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific financing arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The profit income is calculated by applying the effective profit rate to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the profit income is calculated by applying the effective profit rate to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI) the effective profit rate reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

#### (ii) Non-Shari'ah compliant income

The Bank does not, as a policy, engage in any activities that involve receipt or payment of interest.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (c) Foreign currencies (continued)

#### (iii) Fees and commission income

Fee and commission income include fees other than those that are an integral part of effective profit rate (see 3(b)(i) above). The fees included in this part of the Bank's statement of profit or loss include among other things fees charged for servicing a financing arrangement, non-utilisation fees relating to financing arrangement commitments when it is unlikely that these will result in a specific financing arrangement and financing arrangement syndication fees.

#### (c) Foreign currencies

#### Translation of foreign currencies

Transactions in foreign currencies during the year are translated into Kenya shillings at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into Kenya shillings at the exchange rate ruling at that date. Resulting exchange differences are recognised in profit or loss for the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Kenya shillings at the exchange rate ruling at the date on which the fair value is determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost are translated to Kenya shillings using the exchange rate ruling at the date of the transaction.

#### (d) Property and equipment

#### (i) Recognition and measurement

Items of property and equipment are measured at historical cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the assets.

#### (ii) Subsequent cost

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss.

#### (iii) Depreciation

Depreciation is charged to the profit or loss on a straight line basis over the estimated useful lives of each item of property, plant and equipment. The estimated useful lives are as follows:

| Asset class                      | Depreciation rate | Useful life (Yrs) |
|----------------------------------|-------------------|-------------------|
| Leasehold improvements           | 16.7%             | 6                 |
| Equipment, fixtures and fittings | 20.0%             | 5                 |
| Motor vehicle                    | 25.0%             | 4                 |
| Computers                        | 33.3%             | 3                 |

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (d) Property and equipment (continued)

#### (iii) Depreciation - continued

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

#### (iv) Disposal of property and equipment

Gain and losses on disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of the property and equipment and are recognised net in profit or loss.

#### (e) Intangible assets

Computer software licenses are stated at cost less accumulated amortisation and any accumulated impairment losses.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date that is available for use. The estimated useful life of software is 5 years and 10 years for the core banking system.

The amortisation method, useful life and the residual value are reviewed at each financial year-end and adjusted if appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation method, as appropriate, and treated as changes in accounting estimates.

#### (f) Taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or Other Comprehensive Income (OCI).

#### (i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

#### (ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for: — temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; — temporary differences related to investments in subsidiaries to the extent that the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and — taxable temporary differences arising on the initial recognition of goodwill.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (f) Taxation (continued)

#### (ii) Deferred tax - continued

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for the Bank. 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; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

#### (g) Financial instruments

#### (i) Recognition and initial measurement

The Bank initially recognises financing arrangements and deposits, on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

#### (ii) Classification

The Bank classifies its financial assets into three principal classification categories based on the cash flow characteristics of the asset and the business model assessment:

- measured at Amortised Cost;
- Fair Value through Other Comprehensive Income (FVOCI); and
- Fair Value through Profit or Loss (FVTPL)

Financial instruments measured at amortised cost, per IFRS, in this financial statements refer to financing arrangements and other assets.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (g) Financial instruments (continued)

#### (ii) Classification - continued

#### Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

The Bank recognises cash and balances with Central Bank, balances due from banking institutions, financing arrangements and other assets at amortised cost.

#### Fair Value through Other Comprehensive Income (FVOCI) - Debt

A financial asset which is a debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

The Bank has no financial assets classified at FVOCI.

# Fair Value through Other Comprehensive Income (FVOCI) - Equity

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by investment basis. The Bank currently does not have any equity investments.

#### Fair Value through Profit or Loss (FVTPL)

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

# Assessment of whether contractual cash flows are solely payments of principal and profit

To determine whether a financial asset should be classified as measured at amortised cost, FVOCI or FVTPL, an entity assesses whether the cash flows from the financial asset represent, on specified dates, solely payments of principal and profit on the principal amount outstanding - i.e. the SPPP criterion. A financial asset that does not meet the SPPP criterion is always measured at FVTPL, unless it is an equity instrument for which an entity applies the FVOCI election.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (g) Financial instruments (continued)

#### (ii) Classification - continued

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. The definition of principal reflects the economics of the financial asset from the perspective of the current holder. This means that an entity assesses the asset's contractual cash flow characteristics by comparing the contractual cash flows to the amount that it actually invested.

'Profit' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Bank considered the contractual terms of the instrument. This included assessing whether the financial asset contained a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considered:

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

Contractual features that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic financing arrangement, such as exposure to changes in equity prices or commodity prices, give rise to contractual cash flows that do not meet the SPPP criterion.

The bank has determined that the contractual cash flows of these financing arrangements are SPPP because the profit is not leveraged and though may vary will still represent consideration for time value of money, other basic lending risks and costs associated with the principal amount outstanding.

#### De minimis

A contractual cash flow characteristic does not affect the classification of a financial asset if it could have only a de minimis effect on the financial asset's contractual cash flows.

To make this determination, the Bank considers the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial asset.

Business model assessment

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (g) Financial instruments (continued)

#### (ii) Classification - continued

Business model assessment - continued

The Bank makes an assessment of the objective of the 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 information considered includes:

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

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

The Bank's financial assets are all held in held within a business model whose objective is to hold assets to collect contractual cash flows.

#### Financial liabilities

IFRS 9 largely retained the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, although under IAS 39 fair value changes of liabilities designated under the fair value option were recognised in profit and loss, under IFRS 9, fair value changes are generally presented as follows:

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

The Bank classifies all financial liabilities as subsequently measured at amortised cost.

Customer deposits, balances due to banking institutions and other liabilities are classified at amortised cost.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (g) Financial instruments (continued)

#### (iii) Reclassification

The Bank only reclassifies financial assets when management changes the business model for managing the financial assets. In that instance all affected financial assets are reclassified. Such changes are expected to be very infrequent, and are determined by the Bank's senior management as a result of external or internal changes.

#### (iv) Derecognition and contract modification

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any profit in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

However, when the modification of a financial instrument not measured at FVTPL does not result in derecognition, the Bank will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective profit rate and recognise any resulting adjustment as a modification gain or loss in profit or loss.

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

#### (v) Write-off

The Bank directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

#### (vi) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS Accounting Standards, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (g) Financial instruments (continued)

# (vii) Impairment – financing arrangements, off balance sheet commitments and financial guarantee contracts

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

- financial assets that are debt instruments this applies to the Bank's financing arrangements to customers, cash and balances with Central Bank, balances due from banking institutions and other assets; and
- Off balance sheet financing arrangement commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets) this applies to the Bank's off balance sheet exposures where credit intervention is not required for the counterparty to access the credit facility.

No impairment loss is recognised on equity investments.

The Bank recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

The Bank recognises loss allowances at an amount equal to lifetime ECLs, except in the cases where credit risk has not increased significantly since initial recognition. Loss allowances for trade and lease receivables will always be measured at an amount equal to lifetime ECLs applying the simplified approach.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below and in note 5(a):

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

#### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (g) Financial instruments (continued)

(vii) Impairment – financing arrangements, off balance sheet commitments and financial guarantee contracts – continued

#### Measurement of ECLs - continued

- undrawn Financing commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

- significant financial difficulty of the issuer or the counter party in a financing arrangement;
- a breach of contract e.g. a default or past-due event;
- a lender having granted a concession to the counter party in a financing arrangement - for economic or contractual reasons relating to the counter party in a financing arrangement's financial difficulty - that the lender would not otherwise consider;
- it becoming probable that the counter party in a financing arrangement will enter bankruptcy or other financial re-organisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL: – financial assets that are debt instruments; – lease receivables; – financial guarantee contracts issued; and – financing commitments issued. No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (g) Financial instruments (continued)

(vii) Impairment – financing arrangements, off balance sheet commitments and financial guarantee contracts – continued

#### Measurement of ECLs - continued

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure.

Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired. Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective profit rate or an approximation thereof;
  - POCI assets: a credit-adjusted effective profit rate:
  - lease receivables: the discount rate used in measuring the lease receivable;
  - undrawn financing commitments: the effective profit rate, or an approximation thereof, that will be applied to the financial asset resulting from the financing commitment; and
  - financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

#### Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the customer, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (g) Financial instruments – continued

(vii) Impairment – financing arrangements, off balance sheet commitments and financial guarantee contracts - continued

#### Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost, debt financial assets carried at FVOCI and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets').

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

In making an assessment of whether an investment in sovereign debt is creditimpaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

#### **POCI** financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective profit rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (g) Financial instruments - continued

(vii) Impairment – financing arrangements, off balance sheet commitments and financial guarantee contracts - continued

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

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

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

#### (h) Impairment of non-financial assets

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

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

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (i) Contingent liabilities

Letters of credit, guarantees, bills for collection and swaps are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities are made by the management based on the information available up to the date the financial statements are approved for issue by the Directors. Contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 and the amount recognised initially less cumulative amount of income recognised in accordance with the principles of IFRS 9.

#### (j) Cash and cash equivalents

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

#### (k) Employee benefits

#### (i) Short term employee benefits

Short term employee benefits are expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the Bank has a present or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

#### (ii) Post-employment benefits obligations

The Bank contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme to which the Bank's obligation is limited to a specified contribution per employee per month. The Bank's contribution is limited to KShs 2,160 per employee per month and is charged in the profit and loss in the year to which it relates.

#### (I) Foreign exchange income and expenses

This comprises foreign exchange differences. Foreign exchange gains and losses are reported on a net basis and are recognised in profit or loss.

#### (m) Determination of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

The fair value of a liability reflects its non-performance risk. When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (m) Determination of fair values (continued)

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted prices in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

#### (n) Related party transactions

The Bank enters into transactions, arrangements and agreements involving Directors, senior management and their related concerns in the ordinary course of business.

#### (o) Leases

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

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price.

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 3. MATERIAL ACCOUNTING POLICIES (Continued)

#### (o) Leases (continued)

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

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

The Bank presents right-of-use assets and lease liabilities as a line item in the statement of financial position.

#### Short-term leases and leases of low-value assets

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

# 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES

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

#### (a) Critical accounting judgements in applying the Bank's policies

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPP and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The Bank monitors financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

# 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES (Continued)

#### (a) Critical accounting judgements in applying the Bank's policies (continued)

Significant increase in credit risk

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

Establishing groups of assets with similar credit risk characteristics

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

#### Models and assumptions used

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

#### Going concern

The Bank assesses its ability to continue as a going concern on an annual basis. In determining whether the Bank is a going concern, management makes judgement regarding the prospective financial information and the ability of the parent Company to provide financial support as and when need arises. The assumptions and methodology used in estimating future cashflows are reviewed regularly to reduce differences between the actual performance and the projected performance.

#### (b) Key sources of estimation uncertainty

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

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

# 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES (Continued)

#### (b) Key sources of estimation uncertainty (continued)

Probability of default (PD):

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

Loss Given Default:

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

#### Taxation

The Bank recognises the net future tax benefit that relates to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Bank to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Bank to realise the net deferred tax assets recorded at the reporting date could be impacted.

#### 5. FINANCIAL RISK MANAGEMENT

#### Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risks
- Currency risk
- Settlement risk
- Capital management
- Profit rate risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

#### Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability (ALCO), Country Management, Credit Management, Crisis Management and Risk Management committees, which are responsible for developing and monitoring risk management policies in their specified areas.

All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### Risk management framework - continued

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk Management Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

#### (a) Credit risk

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

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Management Committee. A separate Credit department, reporting to the Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Credit Department, Head of Credit, Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. The Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for financing assets and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

- The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Risk Management Department.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Credit Department on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement the Bank credit policies and procedures, with credit approval authorities delegated from the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval. Regular audits of business units and Credit processes are undertaken by Internal Audit.

#### Credit quality

The following table sets out information about the credit quality and credit risk exposure of financial assets measured at amortised cost. Unless specifically indicated, the amounts in the table represent net amounts totalling KShs 17,837,036,000. For off balance sheet commitments the amounts in the table represent the undrawn portion of amounts committed. Off balance sheet commitments are letters of credit and bank guarantees amounting to KShs 929,497,000.

Explanation of the terms 'Stage 1', 'Stage 2', 'Stage 3' and Purchased originated credit impaired (POCI) assets is included in Note 3.

| At 31 December 2024             | Stage 1<br>KShs '000 | Stage 2<br>KShs '000 | Stage 3<br>KShs '000 | Total<br>KShs '000 |
|---------------------------------|----------------------|----------------------|----------------------|--------------------|
| Financing arrangements - Muraba | ha                   |                      |                      |                    |
| Normal                          | 6,445,559            | -                    | _                    | 6,445,559          |
| Watch                           |                      | 935,315              |                      | 935,315            |
| Non-performing                  |                      | -                    | 1,852,878            | 1,852,878          |
|                                 | 6,445,559            | 935,315              | 1,852,878            | 9,233,752          |
| Loss allowance (Note 14(b))     | ( 6,933)             | ( 1,614)             | (486,315)            | ( 494,862)         |
| Carrying amount                 | 6,438,626            | 933,701              | 1,366,563            | 8,738,890          |
| At 31 December 2024             |                      |                      |                      |                    |
| Financing arrangements – Ijarah |                      |                      |                      |                    |
| Normal                          | 5,270,804            | -:                   | y-                   | 5,270,804          |
| Watch                           |                      | 1,519,098            | :-                   | 1,519,098          |
| Non-performing                  |                      |                      | 2,518,425            | 2,518,425          |
|                                 | 5,270,804            | 1,519,098            | 2,518,425            | 9,308,327          |
| Loss allowance (Note 14(b))     | _( 6,922)            | ( 17,167)            | ( 186,092)           | ( 210,181)         |
| Carrying amount                 | 5,263,882            | 1,501,931            | 2,332,333            | 9,098,146          |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

Credit quality - continued

| At 31 December 2024  | Stage 1<br>KShs '000                       | Stage 2<br>KShs '000 | Stage 3<br>KShs '000 | Total<br>KShs '000                           |
|--|--|----------------------|----------------------|--|
| Off balance sheet commitments Normal Watch Non-performing            | 887,064                                    | 42,433               | × .                  | 887,064<br>42,433                            |
|  | 887,064                                    | 42,433               | 20                   | 929,497                                      |
| Loss allowance (Note 14(b))  | ( 823)                                     | wa.                  | _                    | ( 823)                                       |
| At 31 December 2023  | Stage 1<br>KShs '000                       | Stage 2<br>KShs '000 | Stage 3<br>KShs '000 | Total<br>KShs '000                           |
| Financing arrangements – Muraba<br>Normal<br>Watch<br>Non-performing | 6,782,206<br>-<br>-                        | 594,951<br>-         | 869,529              | 6,782,206<br>594,951<br>869,529              |
|  | 6,782,206                                  | 594,951              | 869,529              | 8,246,686                                    |
| Loss allowance (Note 14(b))  | ( 2,927)                                   | ( 7,904)             | (149,434)            | ( 160,265)                                   |
| Carrying amount  | 6,779,279                                  | 587,047              | 720,095              | 8,086,421                                    |
| At 31 December 2023  |  |                      |                      |  |
| Financing arrangements – Ijarah<br>Normal<br>Watch<br>Non-performing | 7,875,851<br>-<br>-<br>-<br>-<br>7,875,851 | 664,218              | 877,480<br>877,480   | 7,875,851<br>664,218<br>877,480<br>9,417,549 |
| Loss allowance (Note 14(b))  | ( 8,933)                                   | (35,765)             | (93,011)             | ( 137,709)                                   |
| Carrying amount  | 7,866,918                                  | 628,453              | 784,469              | 9,279,840                                    |
| At 31 December 2023  | Stage 1<br>KShs '000                       | Stage 2<br>KShs '000 | Stage 3<br>KShs '000 | Total<br>KShs '000                           |
| Off balance sheet commitments Normal Watch Non-performing            | 978,046                                    | -                    |                      | 978,046                                      |
|  | 978,046                                    |                      | -                    | 978,046                                      |
| Loss allowance (Note 14(b))  | ( 216)                                     | Time .               | :=                   | ( 216)                                       |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

Credit quality - continued

The following table sets out the overdue status of financing arrangements in stage 1, 2 and 3.

| Financing arrangements at amortised cost-Murabaha-Gross carrying amount   Current   6,190,083       6,190,083     255,476   Coverdue ≥30     255,476     1,852,878   935,315   Coverdue ≥90     6,445,559   935,315   1,852,878   3,233,752     Total   6,445,559   935,315   1,852,878     3,852,878     Total   Stage 1   Stage 2   Stage 3   Total   KShs '000   KShs '0                                      | At 31 December 2024  | Stage 1<br>KShs '000   | Stage 2<br>KShs '000                               | Stage 3<br>KShs '000                           | Total<br>KShs '000  |
|--|--|--|--|--|---|
| Gross carrying amount         Current         6,190,083         —         —         6,190,083           Overdue < 30   |  |  |  | 110110 000                                     |   |
| Current Overdue < 30         6,190,083   255,476   255,476   255,476   255,476   255,476   255,476   255,476   255,476   255,476   255,476   255,476   255,476   255,476   255,476   255,476   255,476   255,478   25                                |  |  |  |  |   |
| Overdue < 30<br>Overdue > 90         255,476<br>- 935,315<br>Overdue > 90         - 935,315<br>- 1,852,878         255,476<br>- 935,315<br>Overdue > 90         - 935,315<br>- 1,852,878         - 923,3752           Total         6,445,559         935,315         1,852,878         923,3752           At 31 December 2024         Stage 1   |  | C 100 002  |  |  | C 100 000   |
| Overdue > 90         -         935,315         -         935,315           Overdue > 90         -         -         1,852,878         1,852,878         1,852,878           Total         6,445,559         935,315         1,852,878         9,233,752           At 31 December 2024         Stage 1 KShs '000         Stage 2 KShs '000         Stage 3 KShs '000         Total KShs '000           Financing arrangements at amortised costs - Ijarah- Gross carrying amount         4,465,784         -         -         4,465,784         -         -         4,465,784         -         -         4,465,784         -         -         805,020         -         -         805,020         -         -         -         805,020         -         -         -         805,020         -         -         -         805,020         -         -         -         1,519,098         -         -         1,519,098         -         -         1,519,098         -         -         1,519,098         -         -         1,519,098         -         -         -         1,519,098         -         -         -         2,518,425         9,308,327         -         -         -         -         -         -         -         - <th< td=""><td></td><td>8 (8)</td><td>-</td><td>0<u>420</u>0</td><td></td></th<>   |  | 8 (8)  | -  | 0 <u>420</u> 0                                 |   |
| Total         6,445,559         935,315         1,852,878         1,852,878           At 31 December 2024         Stage 1 KShs '000         Stage 2 KShs '000         Stage 3 KShs '000         Total KShs '000           Financing arrangements at amortised costs - Ijarah - Gross carrying amount         4,465,784         -   |  | 233,476  | 025 215  | <del></del>                                    | and the contract of the contract of   |
| Total         6,445,559         935,315         1,852,878         9,233,752           At 31 December 2024         Stage 1 KShs '000         Stage 1         KShs '000         Stage 2         Stage 3         Total         Total         Stage 1         Stage 2         Stage 3         Total         Total         KShs '000  |  |  | 933,313  | 1 952 979                                      |   |
| At 31 December 2024         Stage 1 KShs '000         Stage 2 KShs '000         Stage 3 KShs '000         Total KShs '000           Financing arrangements at amortised costs - Ijarah- Gross carrying amount         4,465,784         4,465,784         805,020         - 805,020         805,020         - 1,519,098         - 1,519,098         - 1,519,098         - 1,519,098         - 1,519,098         - 1,519,098         - 2,518,425         2,518,425         2,518,425         2,518,425         - 2,518,425         2,518,425         2,518,425         - 308,327  | Overduc > 90   |  |  | 1,032,070                                      | 1,032,070   |
| Name    | Total  | 6,445,559  | 935,315  | 1,852,878                                      | 9,233,752   |
| Name    | At 31 December 2024  | Stage 1  | Stage 2  | Stage 3  | Total   |
| Financing arrangements at amortised costs - Ijarah- Gross carrying amount  | The state of parties and parties and   |  |  |  |   |
| amortised costs - Ijarah- Gross carrying amount           Current         4,465,784         805,020           Overdue < 30   | Financing arrangements at  |  |  |  | 110110 000  |
| Current         4,465,784         -         -         4,465,784           Overdue < 30   |  |  |  |  |   |
| Overdue < 30   | carrying amount  |  |  |  |   |
| Overdue > 90         -         1,519,098         -         1,519,098           Overdue > 90         -         -         2,518,425         2,518,425           Total         5,270,804         1,519,098         2,518,425         9,308,327           At 31 December 2024         Stage 1 KShs '000         KShs '000         KShs '000         KShs '000         KShs '000           Financing arrangements at amortised cost-Murabaha-Gross carrying amount         6,414,607         -         -         6,414,607           Overdue < 30         367,599         -         -         367,599           Overdue > 90         -         594,951         -         594,951           Overdue > 90         -         594,951         869,529         869,529           Total         6,782,206         594,951         869,529         8,246,686           At 31 December 2023         Stage 1 KShs '000         KShs '000         KShs '000         KShs '000         KShs '000           Financing arrangements at amortised costs - Ijarah- Gross carrying amount         5,818,067         -         -         -         5,818,067           Current         5,818,067         -         -         -         5,818,067           Overdue > 30 < 90         2,057,784   |  |  | -  | -  | 4,465,784   |
| Overdue >90         -         -         2,518,425         2,518,425           Total         5,270,804         1,519,098         2,518,425         9,308,327           At 31 December 2024         Stage 1 KShs '000         KShs '000         KShs '000         KShs '000         KShs '000           Financing arrangements at amortised cost-Murabaha-Gross carrying amount         6,414,607         -         -         6,414,607           Overdue < 30         367,599         -         -         6,49,519           Overdue >90         -         594,951         -         594,951           Overdue >90         -         594,951         869,529         869,529           Total         6,782,206         594,951         869,529         8,246,686           At 31 December 2023         Stage 1 KShs '000         KShs '000         KShs '000         KShs '000         KShs '000           Financing arrangements at amortised costs - Ijarah- Gross carrying amount         5,818,067         -         -         -         5,818,067           Overdue < 30         2,057,784         -         -         5,818,067           Overdue < 30         2,057,784         -         -         2,057,784           Overdue < 30         -         664,218   |  | 805,020  | _  | -  |   |
| Total         5,270,804         1,519,098         2,518,425         9,308,327           At 31 December 2024         Stage 1 KShs '000         Stage 2 KShs '000         Stage 3 KShs '000         Total KShs '000           Financing arrangements at amortised cost-Murabaha-Gross carrying amount         6,414,607         6,414,607         6,414,607           Overdue < 30   |  |  | 1,519,098  |  |   |
| Stage 1   Stage 2   Stage 3   Total KShs '000   KShs | Overdue >90  | -  | -  | 2,518,425                                      | 2,518,425   |
| At 31 December 2024         Stage 1 KShs '000         Stage 2 KShs '000         Stage 3 KShs '000         Total KShs '000           Financing arrangements at amortised cost-Murabaha-Gross carrying amount         6,414,607         -         -         6,414,607           Overdue < 30         367,599         -         -         367,599           Overdue > 30 < 90         -         594,951         -         594,951           Overdue > 90         -         594,951         869,529         869,529           Total         6,782,206         594,951         869,529         8,246,686           At 31 December 2023         Stage 1 KShs '000         KShs '000         KShs '000         KShs '000         KShs '000           Financing arrangements at amortised costs - Ijarah- Gross carrying amount         5,818,067         -         -         5,818,067           Overdue < 30         2,057,784         -         -         2,057,784           Overdue > 30         2,057,784         -         -         2,057,784           Overdue > 90         -         664,218         -         664,218           Overdue > 90         -         -         877,480         877,480  | Total  | 5,270,804  | 1,519,098  | 2,518,425                                      | 9,308,327   |
| Financing arrangements at amortised cost-Murabaha- Gross carrying amount  Current 6,414,607 - 6,414,607  Overdue < 30 367,599  Overdue > 90 - 594,951 - 594,951  Overdue > 90 - 869,529 869,529  Total 6,782,206 594,951 869,529 8,246,686  At 31 December 2023 Stage 1 Stage 2 Stage 3 KShs '000  Financing arrangements at amortised costs - Ijarah- Gross carrying amount  Current 5,818,067 - 5,818,067  Overdue < 30 2,057,784 - 5,818,067  Overdue > 30 2,057,784  Overdue > 30 664,218  Overdue > 90 - 664,218  Overdue > 90 - 877,480 877,480  |  |  |  |  |   |
| amortised cost-Murabaha-Gross carrying amount           Current         6,414,607         -         -         6,414,607           Overdue < 30   | At 31 December 2024  |  |  |  |   |
| Gross carrying amount           Current         6,414,607         -         -         6,414,607           Overdue < 30   |  |  |  |  |   |
| Current         6,414,607         -         -         6,414,607           Overdue < 30   | Financing arrangements at  |  |  |  |   |
| Overdue < 30         367,599         -         -         367,599           Overdue > 30 < 90   | Financing arrangements at amortised cost-Murabaha-   |  |  |  |   |
| Overdue > 30 < 90         -         594,951         -         594,951           Overdue > 90         -         -         869,529         869,529           Total         6,782,206         594,951         869,529         8,246,686           At 31 December 2023         Stage 1 KShs '000         KShs '000         KShs '000         KShs '000           Financing arrangements at amortised costs - Ijarah- Gross carrying amount         5,818,067         -         -         5,818,067           Overdue < 30         2,057,784         -         -         2,057,784           Overdue > 30 < 90         -         664,218         -         664,218           Overdue > 90         -         877,480         877,480   | Financing arrangements at amortised cost-Murabaha-Gross carrying amount  | KShs '000  |  |  | KShs '000   |
| Overdue >90         -         -         869,529         869,529           Total         6,782,206         594,951         869,529         8,246,686           At 31 December 2023         Stage 1 KShs '000         Stage 2 KShs '000         Stage 3 KShs '000         Total KShs '000           Financing arrangements at amortised costs - Ijarah- Gross carrying amount         Stage 1 KShs '000         Stage 2 KShs '000         Stage 3 KShs '000         Total KShs '000           Current         5,818,067         -         -         -         5,818,067           Overdue < 30   | Financing arrangements at amortised cost-Murabaha-Gross carrying amount Current  | KShs '000<br>6,414,607   |  |  | KShs '000<br>6,414,607  |
| At 31 December 2023  Stage 1   | Financing arrangements at amortised cost-Murabaha-Gross carrying amount Current Overdue < 30   | KShs '000<br>6,414,607   | KShs '000  |  | KShs '000<br>6,414,607<br>367,599   |
| KShs '000   KShs '000   KShs '000   KShs '000  | Financing arrangements at amortised cost-Murabaha-Gross carrying amount Current Overdue < 30 Overdue > 30 < 90   | KShs '000<br>6,414,607   | KShs '000  | KShs '000                                      | 6,414,607<br>367,599<br>594,951   |
| Financing arrangements at amortised costs - Ijarah- Gross carrying amount  Current 5,818,067 5,818,067  Overdue < 30 2,057,784 2,057,784  Overdue >30<90 - 664,218 - 664,218  Overdue >90 - 877,480 877,480  | Financing arrangements at amortised cost-Murabaha-Gross carrying amount Current Overdue < 30 Overdue > 30 < 90 Overdue > 90  | 6,414,607<br>367,599   | KShs '000  | KShs '000                                      | 6,414,607<br>367,599<br>594,951<br>869,529  |
| amortised costs - Ijarah- Gross carrying amount         Current       5,818,067       -       -       5,818,067         Overdue < 30   | Financing arrangements at amortised cost-Murabaha-Gross carrying amount Current Overdue < 30 Overdue > 30 < 90 Overdue > 90  Total   | 6,414,607<br>367,599<br>-<br>-<br>6,782,206<br>Stage 1                   | KShs '000  - 594,951  - 594,951  Stage 2           | KShs '000                                      | 6,414,607<br>367,599<br>594,951<br>869,529<br><b>8,246,686</b><br><b>Total</b>  |
| carrying amount         Current       5,818,067       -       -       5,818,067         Overdue < 30   | Financing arrangements at amortised cost-Murabaha-Gross carrying amount Current Overdue < 30 Overdue > 30 < 90 Overdue > 90   Total  At 31 December 2023   | 6,414,607<br>367,599<br>-<br>-<br>6,782,206<br>Stage 1                   | KShs '000  - 594,951  - 594,951  Stage 2           | KShs '000                                      | 6,414,607<br>367,599<br>594,951<br>869,529<br><b>8,246,686</b><br><b>Total</b>  |
| Current       5,818,067       -       -       5,818,067         Overdue < 30   | Financing arrangements at amortised cost-Murabaha-Gross carrying amount Current Overdue < 30 Overdue > 30 < 90 Overdue > 90  Total  At 31 December 2023  Financing arrangements at   | 6,414,607<br>367,599<br>-<br>-<br>6,782,206<br>Stage 1                   | KShs '000  - 594,951  - 594,951  Stage 2           | KShs '000                                      | 6,414,607<br>367,599<br>594,951<br>869,529<br><b>8,246,686</b><br><b>Total</b>  |
| Overdue < 30   | Financing arrangements at amortised cost-Murabaha-Gross carrying amount Current Overdue < 30 Overdue > 30 < 90 Overdue > 90  Total  At 31 December 2023  Financing arrangements at amortised costs - Ijarah- Gross   | 6,414,607<br>367,599<br>-<br>-<br>6,782,206<br>Stage 1                   | KShs '000  - 594,951  - 594,951  Stage 2           | KShs '000                                      | 6,414,607<br>367,599<br>594,951<br>869,529<br><b>8,246,686</b><br><b>Total</b>  |
| Overdue >30<90 - 664,218 - 664,218<br>Overdue >90 - 877,480 877,480  | Financing arrangements at amortised cost-Murabaha-Gross carrying amount Current Overdue < 30 Overdue > 30 < 90 Overdue > 90  Total  At 31 December 2023  Financing arrangements at amortised costs - Ijarah- Gross carrying amount                                       | 6,414,607<br>367,599<br>-<br>6,782,206<br>Stage 1<br>KShs '000           | KShs '000  - 594,951  - 594,951  Stage 2           | KShs '000                                      | 6,414,607<br>367,599<br>594,951<br>869,529<br>8,246,686<br>Total<br>KShs '000   |
| Overdue >90 - 877,480 877,480  | Financing arrangements at amortised cost-Murabaha-Gross carrying amount Current Overdue < 30 Overdue > 30 < 90 Overdue > 90  Total  At 31 December 2023  Financing arrangements at amortised costs - Ijarah- Gross carrying amount Current                               | 6,414,607<br>367,599<br>-<br>-<br>-<br>6,782,206<br>Stage 1<br>KShs '000 | KShs '000  - 594,951  - 594,951  Stage 2           | KShs '000                                      | 6,414,607<br>367,599<br>594,951<br>869,529<br><b>8,246,686</b><br>Total<br>KShs '000  |
| Total 7,875,851 664,218 877,480 9,417,549  | Financing arrangements at amortised cost-Murabaha-Gross carrying amount Current Overdue < 30 Overdue > 30 < 90 Overdue > 90  Total  At 31 December 2023  Financing arrangements at amortised costs - Ijarah- Gross carrying amount Current Overdue < 30                  | 6,414,607<br>367,599<br>-<br>-<br>-<br>6,782,206<br>Stage 1<br>KShs '000 | KShs '000  - 594,951  - 594,951  Stage 2 KShs '000 | KShs '000                                      | 6,414,607<br>367,599<br>594,951<br>869,529<br><b>8,246,686</b><br><b>Total</b><br><b>KShs '000</b><br>5,818,067<br>2,057,784            |
|  | Financing arrangements at amortised cost-Murabaha-Gross carrying amount Current Overdue < 30 Overdue > 30 < 90 Overdue > 90  Total  At 31 December 2023  Financing arrangements at amortised costs - Ijarah-Gross carrying amount Current Overdue < 30 Overdue > 30 < 90 | 6,414,607<br>367,599<br>-<br>-<br>-<br>6,782,206<br>Stage 1<br>KShs '000 | KShs '000  - 594,951  - 594,951  Stage 2 KShs '000 | KShs '000  869,529  869,529  Stage 3 KShs '000 | 6,414,607<br>367,599<br>594,951<br>869,529<br><b>8,246,686</b><br><b>Total</b><br><b>KShs '000</b><br>5,818,067<br>2,057,784<br>664,218 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

Credit quality - continued

#### Write-off policy

The Bank may write off a financing arrangement balance (and any related allowances for impairment losses) when credit determines that the financing arrangements are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the customer's financial position such that the customer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The contractual amount outstanding on financial assets that credit determined to be uncollectible and were written off during the year ended 31 December 2024 is KShs. 67,890,000 (2023 – Nil).

#### Collateral

The Bank holds collateral against financing arrangements to customers in the form of mortgage charge over property, registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of financing, and generally are not updated except when a financing asset is individually assessed as impaired.

Collateral is not held over deposits and balances due from Banking institutions, except when securities are held as part of reverse repurchase and securities financing activity.

Collateral significantly impacts Expected Credit Losses (ECL) by influencing Loss Given Default (LGD) estimates. Cash flows from collateral must be included if contractually recognized. LGD considers future collateral values, realization time, and historical discounts. Changes in collateral valuations affect ECL impairment allowances, making accurate projections crucial for reliable estimates.

There have been no significant changes in the quality of the collateral held.

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

| Fair values of collateral held: | 2024<br>KShs'000  | 2023<br>KShs'000 |
|---------------------------------|-------------------|------------------|
| Stage 1                         | 9,631,940         | 10,501,940       |
| Stage 2                         | 2,492,636         | 2,175,906        |
| Stage 3                         | 3,698,897         | 1,504,562        |
|                                 | <u>15,823,473</u> | 14,182,408       |

Inputs, assumptions and techniques used for estimating impairment

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment - continued

Significant increase in credit risk (SICR)

The Bank in determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition considered reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience and expert credit assessment.

Information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, hence the Bank has used past due information and qualitative information to determine whether there have been significant increases in credit risk since initial recognition.

Determining whether credit risk has increased significantly

The Bank has established a framework that incorporates both past due information and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition.

The framework aligns with the Bank's internal credit risk management process.

The Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, the financial asset is more than 30 days in arrears.

Additionally, in certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk and classify the exposure as 'watch' if particular qualitative factors indicate so and those indicators may not be fully captured by its past due status on a timely basis.

The following qualitative criteria is applied:

- Classification of exposures by any other Banks and Financial institutions or local Credit Reference Bureau (CRB).
- Unavailable/inadequate financial information/financial statements;
- Qualified report by external auditors;
- Significant contingent liabilities;
- Increase in operational risk and higher occurrence of fraudulent activities:
- Continued delay and non-cooperation by the counterparty to a financing arrangement in providing key relevant documentation;
- Deterioration in credit worthiness due to factors other than those listed above

As a backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Also see note 4(b).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment - continued

Definition of default

The Bank will consider a financial asset to be in default when:

- the counter party in a financing arrangement is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the counter party in a financing arrangement is more than 90 days past due on any material credit obligation to the Bank. This definition is largely consistent with the Central Bank of Kenya definition that is used for regulatory purposes.

In assessing whether a counter party in a financing arrangement is in default, the Bank will consider indicators that are:

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

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

Forward-looking information

Under IFRS 9, the Bank has relied on management judgement to derive the forward-looking information in its measurement of ECLs as the use of statistical approach didn't indicate any strong correlation between Bank's PDs and the macroeconomic data.

The forward-looking information (FLI) overlay has been derived on the following basis.

- Use of the Banking industry 13 years average non-performing financing ratio; where the year on year average growth rate is considered to be the base case scenarios while the maximum and minimum year on year change are considered to be the worst and best case scenarios respectively.
- Application of weightages of 80% for the worst scenario and 10% for both base and best scenarios resulting to a weighted FLI overlay of 31.7%.

The table below shows sensitivity of expected credit loss (ECL) to forward-looking information (FLI)

| Scenario    | Assumed change in non-performing financing ratio (NPFR) | Probability Weighting (%) | Impact on ECL (%) |
|-------------|---|---------------------------|-------------------|
| Worst Case  | Maximum year-on-year growth rate                        | 80%                       | +40%              |
| Base Case   | 13-year average growth rate                             | 10%                       | No change         |
| Best Case   | Minimum year-on-year growth rate                        | 10%                       | -20%              |
| Weighted    | Blended impact of all scenarios                         | 100%                      | +31.7%            |
| FLI Overlay | *   |                           |                   |

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment - continued

Three scenarios based on variations in the non-performing financing ratio (NPFR) are assumed in the sensitivity analysis. In the worst scenario (80% probability), a notable increase in NPFR causes expected credit loss (ECL) to jump by 40%, a sign of increased credit risk. With no discernible ECL influence, the base case (10% chance) represents the 13-year industry average NPFR growth. Assuming better NPFR, the best-case scenario (10% likelihood) lowers ECL by 20%. By applying probability weightings, the final forward-looking information (FLI) overlay ensures compliance with IAS 1.125 and IFRS 9 disclosure standards by increasing ECL provisions by 31.7%.

#### Modified financial assets

The contractual terms of a financing arrangements may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing arrangement whose terms have been modified may be derecognised and the renegotiated financing arrangements recognised as a new financing arrangement at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of the counter party in a financing arrangement's initial credit risk assessment and the current assessment at the point of modification.

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

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing arrangements covenants. The Bank Credit Committee regularly reviews reports on restructuring activities.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of restructuring are relevant to assessing whether there is a significant increase in credit risk (see above). Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

#### Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- Probability of default (PD);
- loss given default (LGD); and

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment - continued

Inputs into measurement of ECLs - continued

exposure at default (EAD).

These parameters will be derived from internally developed models and other historical data that leverage industry information. The PD will be adjusted to reflect forward-looking information as described above.

PD

PD estimates for financing arrangements are estimates at a certain date as follows;

- Use of the Bank's own historical to date data to estimate the Probability of default (PD).
- Segmentation of PD into the various business units and the staff portfolio noting the differing characteristics in each business segment.
- Determination of separate PDs for stages 1 and stage 2 portfolios.
- Lifetime PD for stage 2 estimated based on marginal PDs from the Bank's our internal data.

In arriving at the effective PDs, the Bank has incorporated an overlay of forward-looking information which is derived on the following basis.

— Use of the Banking industry 14 years' average non-performing financing ratio; where the year on year average growth rate is considered to be the base case scenario while the maximum and minimum year on year change are considered to be the worst and best case scenarios respectively. Weightages are then applied on each scenario to arrive at a weighted FLI overlay for inclusion into the segmented PDs.

#### Loss Given Default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Bank will estimate LGD parameters based on collateral available against exposures and the history of recovery rates of claims against defaulted counterparties. The LGD models will consider the type of collateral, seniority of the claim, time to recover in the event of foreclosure, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are calibrated to consider the time to recover cash flows for different collateral types and apply the forced sale value (FSV) of collateral. The collateral values to consider will be calculated on a discounted cash flow basis using the effective profit rate or a close proxy of the effective profit rate. The LGD for unsecured financial assets is 100% unless management assessment of the counter party in a financing arrangement supports a lower LGD.

#### Exposure at Default

EAD represents the expected exposure in the event of a default. The Bank will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default plus profit payments that would have been missed at the point of default. For financing commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

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

Exposure at Default - continued

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank will measure ECLs considering the risk of default over the maximum contractual period (including any counter party in a financing arrangement's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period.

The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a financing arrangements commitment or guarantee.

For guarantee facilities and other revolving facilities that include both a financing arrangement and an undrawn commitment component, the Bank will measure ECLs over a period of one year unless the expected life of the exposure can be reasonably determined.

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

- Product type; and
- Industry.

The groupings will be subject to regular review to ensure that exposures within a particular segment remain appropriately homogeneous.

#### Amount arising from ECL

#### Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by product.

| _                                    | 31 December 2024 |          |                |          |
|--------------------------------------|------------------|----------|----------------|----------|
|                                      |                  | Lifetime | Lifetime       |          |
|                                      |                  | ECL not  | $\mathbf{ECL}$ |          |
|                                      | 12-month         | credit-  | credit-        |          |
| Loss allowance                       | ECL              | impaired | impaired       | Total    |
|                                      | Stage 1          | Stage 2  | Stage 3        |          |
| Financing arrangements – Murabaha    | KShs'000         | KShs'000 | KShs'000       | KShs'000 |
|                                      |                  |          |                |          |
| Balance at 1 January 2024            | 2,927            | 7,904    | 149,434        | 160,265  |
| Transfer to Stage 1                  | 6,461            | (6,461)  |                | =        |
| Transfer to Stage 2                  | (980)            | 1,991    | (1,011)        | -        |
| Transfer to Stage 3                  | ( 520)           | (145)    | 665            | <b>4</b> |
| Net re-measurement of loss allowance | (3,504)          | ( 922)   | 364,170        | 359,744  |
| Net financial assets originated or   |                  |          |                |          |
| purchased                            | 3,128            | -        | 41,588         | 44,716   |
| Financial assets that have been      |                  |          |                |          |
| derecognised                         | ( 579)           | ( 753)   | ( 641)         | (1,973)  |
| Write offs                           |                  |          | (67,890)       | (67,890) |
| Balance at 31 December 2024          | 6,933            | 1,614    | 486,315        | 494,862  |

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

Amount arising from ECL - continued

| Amount arising from ECL - continu  | eu                                     | 21 Dog  | ember 2024   |                     |
|--|--|---|--|---------------------|
| Loss allowance - continued  Financing arrangements – Ljarah  | 12-Month<br>ECL<br>Stage 1<br>KShs'000 | Lifetime<br>ECL not<br>credit-<br>impaired<br>Stage 2<br>KShs'000 | Lifetime<br>ECL credit-<br>impaired<br>Stage 3<br>KShs'000 | Total<br>KShs'000   |
| Balance at 1 January 2024  | 8,933                                  | 35,766  | 93,010   | 137,709             |
| Transfer to Stage 1  | 428                                    | ( 428)  | 93,010   | 137,709             |
| Transfer to Stage 2  | (1,011)                                | 1,011   | -  | _                   |
| Transfer to Stage 3  | (1,177)                                | (29,124)  | 30,301   | _                   |
| Net remeasurement of loss allowance  | (1,203)                                | 9,942   | 62,781   | 71,520              |
| Net financial assets originated or purchased   | 981                                    | -   | ~  | 981                 |
| Financial assets that have been  |  |   |  |                     |
| derecognised<br>Write offs   | ( 29)                                  | -   | <del>:=</del> :  | ( 29)               |
| write ons  | 722                                    | <b>=</b> 1:   |  |                     |
| Balance at 31 December 2024  | 6,922                                  | 17,167  | 186,092  | 210,181             |
| Financing arrangements – off balance sheet commitments (Note 14 (b)) Balance at 1 January 2024 Transfer to Stage 1 Transfer to Stage 2 Transfer to Stage 3 Net financial assets originated or purchased Financial assets that have been derecognised | 216<br>-<br>-<br>-<br>823<br>( 216)    | -   |  | 216<br>823<br>(216) |
| Balance at 31 December 2024  | 823                                    |   | =  | 823                 |
|  |  |   | ember 2023   |                     |
| Loss allowance   | 12-Month<br>ECL                        | Lifetime<br>ECL not<br>credit-<br>impaired                        | Lifetime<br>ECL credit-<br>impaired                        | Total               |
|  | Stage 1                                | Stage 2   | Stage 3  |                     |
| Financing arrangements –<br>Murabaha   | KShs'000                               | KShs'000  | KShs'000   | KShs'000            |
| Balance at 1 January 2023  | 1,503                                  | 32,916  | 109,802  | 144,221             |
| Transfer to Stage 1  | 1,140                                  | (1,140)   | -  | _                   |
| Transfer to Stage 2  | ( 46)                                  | 46  | ₩3   | -                   |
| Transfer to Stage 3  | ( 139)                                 | (1,886)   | 2,025  | <del>-</del>        |
| Net re-measurement of loss allowance   | (1,117)                                | (19,145)  | 37,607   | 17,345              |
|  |  |   |  |                     |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

#### Amount arising from ECL - continued

Loss allowance - continued

|  |                            | 31 Dec                                  | ember 2023                      |           |
|--|----------------------------|---|---------------------------------|-----------|
|  | 12-Month                   | Lifetime<br>ECL not<br>credit-          | Lifetime<br>ECL credit-         |           |
| Loss allowance   | ECL                        | impaired                                | impaired                        | Total     |
| Financing arrangements – Murabaha  | Stage 1<br>KShs'000        | Stage 2<br>KShs'000                     | Stage 3<br>KShs'000             | KShs'000  |
| Net financial assets originated or<br>purchased<br>Financial assets that have been         | 1,677                      | 3,583                                   | =                               | 5,260     |
| derecognised   | ( 91)                      | ( 6,470)                                | 14                              | ( 6,561)  |
| Balance at 31 December 2023  | 2,927                      | 7,904                                   | 149,434                         | 160,265   |
|  |                            |   | ember 2023                      |           |
| Loss allowance - continued   | 12-Month                   | Lifetime<br>ECL not<br>credit-          | Lifetime<br>ECL credit-         |           |
| Einansing among amonta Tionah  | ECL<br>Stage 1<br>KShs'000 | impaired<br>Stage 2<br>KShs'000         | impaired<br>Stage 3<br>KShs'000 | Total     |
| Financing arrangements – Ijarah  |                            |   |                                 | KShs'000  |
| Balance at 1 January 2023 Transfer to Stage 1 Transfer to Stage 2                          | 9,134<br>1,718<br>( 95)    | 22,799<br>(1,718)<br>95                 | 71,518<br>-<br>-                | 103,451   |
| Transfer to Stage 3 Net remeasurement of loss allowance Net financial assets originated or | ( 66)<br>793               | 12,412                                  | 66<br>33,996                    | 47,201    |
| purchased Financial assets that have been  | 2,723                      | 2,178                                   | Ξ                               | 4,901     |
| derecognised   | (5,274)                    | <u></u>                                 | (12,570)                        | ( 17,844) |
| Balance at 31 December 2023  | 8,933                      | 35,766                                  | 93,010                          | 137,709   |
| Financing arrangements – off balance sheet commitments (Note 14 (b))                       |                            |   |                                 |           |
| Balance at 1 January 2023  | 317                        | <b>₩</b> S                              | _                               | 317       |
| Transfer to Stage 1 Transfer to Stage 2  | 216                        |   | a                               | 216       |
| Transfer to Stage 2 Transfer to Stage 3  | -                          | = · · · · · · · · · · · · · · · · · · · | -                               | <u></u>   |
| Net financial assets originated or purchased Financial assets that have been               | -                          | _                                       | ū                               | -         |
| derecognised   | ( 317)                     | <b>₩</b> 0                              | iei                             | ( 317)    |
| Balance at 31 December 2023  | 216                        | =                                       | -                               | 216       |
|  | · ·                        |   | Daga                            | 50        |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

#### Amount arising from ECL - continued

The Bank has carried out an assessment of the expected credit losses arising from the Bank's cash and balances with central bank, balances due from banking institutions and other assets and determined these to be immaterial. The credit losses have therefore not been recorded in these financial statements.

The ECL on financing arrangements and off balance sheet commitments are presented in financing arrangements and other liabilities respectively in the statement of financial position.

The following table provides a reconciliation between:

- Amounts shown in the above tables reconciling opening and closing balances of loss allowance for financing arrangements.
- The impairment provision on financing assets' line item in the statement of profit or loss and other comprehensive income.

|   | Financing<br>arrangements-<br>Murabaha at  | Financing<br>arrangements -<br>Ijarah at                               | Off balance sheet       |                   |
|---|--|--|-------------------------|-------------------|
| 31 December 2024  | amortised cost<br>KShs'000   | amortised cost<br>KShs'000   | commitments<br>KShs'000 | Total<br>KShs'000 |
| Net re-measurement of loss<br>allowance<br>Net financial assets originated  | 291,854  | 71,520   | -                       | 363,374           |
| or purchased Transfer to suspense/write off Financial assets that have been | 44,716<br>73,059   | 982  | 823                     | 46,521<br>73,059  |
| derecognised  | ( 1,973)   | ( 29)  | (216)                   | ( 2,218)          |
|   | 407,656  | 72,473   | 607                     | 480,736           |
| 31 December 2023  | Financing<br>arrangements-<br>Murabaha at<br>amortised cost<br>KShs'000  | Financing<br>arrangements -<br>Ijarah at<br>amortised cost<br>KShs'000 |                         | Total<br>KShs'000 |
| Net re-measurement of loss<br>allowance<br>Net financial assets originated  | 17,345   | 47,201   | -                       | 64,546            |
| or purchased<br>Transfer to suspense/ write off                             | 5,261  | 4,901  | 216                     | 10,378            |
| Financial assets that have been   | (12,866)   | -  | ) <del>=</del>          | (12,866)          |
|   | Annual Control of the | (17,844)   | (317)                   | (12,866)          |

There were financial assets written off during the year ended 31 December 2024 KShs. 67,890,000 (2023 – Nil).

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

#### Offsetting financial assets and financial liabilities

There are no financial assets and financial liability amounts in the statement of financial position that have been offset in these financial statements.

#### Monitoring concentration risk

The Bank monitors concentrations of credit risk by economic sector. An analysis of concentrations of credit risk at the reporting date is shown below:

|   | 2024<br>KShs'000  | 2024<br>%  |
|---|-------------------|------------|
| Concentration by Sector - 2024                        |                   |            |
| Energy  | 444,188           | 2          |
| Manufacturing   | 1,694,606         | 9          |
| Real estate   | 1,398,294         | 8          |
| Wholesale and retail trade                            | 7,500,224         | 41         |
| Transport and communication                           | 3,173,096         | 17         |
| Building and construction                             | 690,154           | 4          |
| Personal household                                    | 937,496           | 5          |
| Tourism, restaurant and hotels                        | 238,587           | 1          |
| Financial services                                    | 2,465,434         | _13        |
| Total gross financing arrangements                    | <u>18,542,079</u> | <u>100</u> |
|   | 2023              | 2023       |
|   | KShs'000          | %          |
| Concentration by Sector - 2023                        |                   |            |
| Energy  | 1,715,423         | 10         |
| Manufacturing   | 936,311           | 5          |
| Real estate   | 1,452,926         | 8          |
| Wholesale and retail trade                            | 6,775,861         | 39         |
| Transport and communication                           | 2,307,078         | 13         |
| Building and construction                             | 652,596           | 4          |
| Personal household                                    | 928,313           | 5          |
| Tourism, restaurant and hotels                        | 305,561           | 1          |
| Financial services                                    | 2,590,166         | _15        |
| <b>Total gross financing arrangements</b>             | <u>17,664,235</u> | <u>100</u> |
| Monitoring concentration risk                         |                   |            |
| The Bank's other exposures to credit risk relates to: |                   |            |
|   | 2024              | 2024       |
|   | KShs'000          | %          |
| Cash and balances with Central Bank                   | 1,547,464         | 19         |
| Balances due from Banking institutions                | 5,814,623         | 71         |
| Other receivables                                     | 794,018           | _10        |
|   | <u>8,156,105</u>  | <u>100</u> |

#### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

#### Monitoring concentration risk – continued

|  | 2023<br>KShs'000 | 2023<br>%  |
|--|------------------|------------|
| Cash and balances with Central Bank    | 1,247,637        | 19         |
| Balances due from Banking institutions | 5,096,235        | 80         |
| Other receivables                      | 53,719           | 1          |
|  | 6,397,591        | <u>100</u> |

Expected credit losses on the above exposures was assessed as immaterial hence no adjustment has been made in these financial statements.

#### (b) Liquidity risk

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

#### Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank's treasury unit receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Also, the Bank has a credit line of USD 52 million (KShs 6.7bn) with the parent company from which it can draw on a need basis to mitigate short term liquidity mismatches.

Treasury then maintains a portfolio of short-term liquid assets, largely made up of deposits and balances due from Banking institutions and other inter-Bank facilities, to ensure that sufficient liquidity is maintained within the Bank. The liquidity requirements of business units are met through short-term funding from treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Assets and Liabilities Committee (ALCO). Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

#### Exposure to liquidity risk

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

For this purpose, net liquid assets are considered as including cash and cash equivalents and other liquid assets. Details of the reported Bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

#### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### Liquidity risk (continued)

#### Exposure to liquidity risk - continued

|                        | 2024 | 2023 |
|------------------------|------|------|
|                        | %    | %    |
| Average for the period | 28.9 | 27.5 |
| Maximum for the period | 36.3 | 32.0 |
| Minimum for the period | 24.3 | 23.5 |

The following are the undiscounted residual carrying maturities of financial assets and contractual maturities of financial liabilities.

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

| 31 December 2024  | Due<br>within 3<br>months<br>KShs'000 | Due between 3<br>and 12 months<br>KShs'000 | Due<br>between 1<br>and 5 years<br>KShs'000 | Due after<br>5 years<br>KShs'000 | Total<br>KShs'000    |
|---|---------------------------------------|--|---|----------------------------------|----------------------|
| Assets Cash and balances with Central Bank Deposits and balances due from | 1,547,464                             | -  | -   | -,                               | 1,547,464            |
| banking institutions Financing  | 5,814,623                             | 5/   | Ħ   | . <del></del>                    | 5,814,623            |
| arrangements Other assets   | 4,328,042                             | 3,222,186                                  | 4,618,697<br>30,485                         | 6,373,154                        | 18,542,079<br>30,485 |
| Total financial assets  | 11,690,129                            | 3,222,186                                  | 4,649,182                                   | 6,373,154                        | 25,934,651           |
| Liabilities Customer deposits Deposits and balances due to                | 20,057,349                            | 2,577,859                                  |   | -                                | 22,635,208           |
| banking institutions  | 100,030                               | -  | -   | -                                | 100,030              |
| Other liabilities   | 222,976                               | 28,751                                     | E   | -                                | 251,727              |
| Lease liabilities   |                                       | 97,951                                     | 160,516                                     |                                  | 258,467              |
| Total financial liabilities Net liquidity (surplus/gap*)                  | 20,380,355                            | 2,704,561                                  | 160,516                                     | .=                               | 23,245,432           |
| (outprus/gap )  | ( 8,690,226)                          | 517,625                                    | 4,488,666                                   | 6,373,154                        | 2,689,219            |

<sup>\*</sup>The Bank reported a negative short-term liquidity resulting from maturity differences between net liquid assets and short-term liabilities. To address this, the Bank has put in place a contingent liquidity management plan, including a credit line of USD 52m with the parent Bank from which it can draw on a need basis to mitigate short-term liquidity mismatches.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Liquidity risk (continued)

Residual contractual maturities of assets and liabilities - continued

| 31 December 2024  | Due<br>within 3<br>months<br>KShs'000 | Due between<br>3 and 12<br>months<br>KShs'000    | Due<br>between 1<br>and 5 years<br>KShs'000  | Due after<br>5 years<br>KShs'000 | Total<br>KShs'000                           |
|---|---------------------------------------|--|--|----------------------------------|---|
| Bank guarantees   | 77,125                                | 221,233  | 1,400  | -                                | 299,758                                     |
| Letters of credit   | 533,583                               | 96,156   | <b>=</b> :   | <b>—</b> 1                       | 629,739                                     |
| Total off balance sheet   | 610,708                               | 317,389  | 1,400  | -                                | 929,497                                     |
| 31 December 2023  | Due<br>within 3<br>months<br>KShs'000 | Due<br>between 3<br>and 12<br>months<br>KShs'000 | Due<br>between 1<br>and 5<br>years<br>KShs'000   | Due after<br>5 years<br>KShs'000 | Total<br>KShs'000                           |
| Assets Cash and balances with Central Bank Deposits and balances due  | 1,247,637                             |  | Silling State of the State of t |                                  | 1,247,637                                   |
| from banking institutions Financing arrangements Other assets   | 5,096,235<br>3,091,405                | 3,466,669  | 4,458,430<br>23,128  | 6,647,731                        | 5,096,235<br>17,664,235<br>23,128           |
| Total financial assets  | 9,435,277                             | 3,466,669  | 4,481,558  | 6,647,731                        | 24,031,235                                  |
| Liabilities Customer deposits Deposits and balances due to banking institutions Other liabilities Lease liabilities | 19,283,022<br>600,751<br>281,655      | 1,167,779<br>-<br>-<br>92,512                    | -<br>-<br>-<br>167,407   | -                                | 20,450,801<br>600,751<br>281,655<br>259,919 |
| Total financial liabilities   | 20,165,428                            | 1,260,291  | 167,407  |                                  | 21,593,126                                  |
| Net liquidity (surplus/gap*)  | (10,730,151)                          | 2,206,378  | 4,314,151  | 6,647,731                        | 2,438,109                                   |

<sup>\*</sup>The Bank reported a negative short-term liquidity resulting from maturity differences between net liquid assets and short-term liabilities. To address this, the Bank has put in place a contingent liquidity management plan, including a credit line of USD 52m with the parent Bank from which it can draw on a need basis to mitigate short-term liquidity mismatches.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Liquidity risk (continued)

Residual carrying and contractual maturities of assets and liabilities - continued

| 31 December 2023        | Due<br>within 3<br>months<br>KShs'000 | Due<br>between 3<br>and 12<br>months<br>KShs'000 | Due<br>between 1<br>and 5 years<br>KShs'000 | Due after 5<br>years | Total<br>KShs'000 |
|-------------------------|---------------------------------------|--|---|----------------------|-------------------|
| Bank guarantees         | 501,215                               | 330,908  | 32,170                                      | 12                   | 864,293           |
| Letters of credit       | 62,834                                | 50,919   | 1 <del>4</del>                              | =                    | 113,753           |
| Forward Swaps           | 882,755                               | -  | 3.  | 1.                   | 882,755           |
| Total off balance sheet | 1,446,804                             | 381,827  | 32,170                                      | i.e.                 | 1,860,801         |

#### (c) Market risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in ALCO. Risk management is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Bank is primarily exposed to currency risk. Due to the nature of the Bank's current products, the exposure to any other market risk is minimal.

#### Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. In respect of monetary assets and liabilities in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below summarises the foreign currency exposure as at 31 December 2024 and 31 December 2023:

|   | 2024<br>KShs'000                    | 2023<br>KShs'000                    |
|---|-------------------------------------|-------------------------------------|
| Assets in foreign currencies<br>Liabilities in foreign currencies | 12,521,479<br>( <u>12,576,858</u> ) | 11,329,030<br>( <u>12,307,601</u> ) |
| Net foreign currency exposure                                     | (55,379)                            | ( <u>978,571</u> )                  |

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (c) Market risk (continued)

#### Currency risk - continued

The tables below indicate the extent to which the Bank was exposed to currency risk at 31 December 2024 and 2023 on its non-trading monetary assets and liabilities. The analysis is performed for a reasonable possible movement of the currency rate against the KShs with all other variables held constant on the statement of profit or loss due to the changes in the fair values of currency sensitive non-trading monetary assets and liabilities. A negative amount in the table reflects a potential net reduction in statement of profit or loss, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

|     | Increase in<br>currency<br>rate in % | Effect on<br>profit or loss<br>2024<br>KShs'000 | Effect on<br>profit or loss<br>2023<br>KShs'000 |
|-----|--------------------------------------|---|---|
| USD | +2%                                  | (1,111)   | (19,589)  |
| GPP | +2%                                  | ( 1)  | 12  |
| EUR | +2%                                  | ( 7)  | ( 4)  |
| AED | +2%                                  |   | 4   |
|     | Decrease in currency rate in %       | Effect on profit or loss 2024 KShs'000          | Effect on profit or loss 2023 KShs'000          |
| USD | -2%                                  | 1,111   | 19,589  |
| GPP | -2%                                  | 1   | ( 12)   |
| EUR | -2%                                  | 7   | 4   |
| AED | -2%                                  | ( <u>11</u> )                                   | ( <u>4</u> )                                    |

The following significant exchange rates were applied during the year.

|          | Closin | ıg     | Avera  | ge     |
|----------|--------|--------|--------|--------|
| Currency | 2024   | 2023   | 2024   | 2023   |
| USD      | 129.29 | 156.46 | 134.98 | 139.72 |
| GBP      | 162.27 | 199.80 | 172.51 | 199.80 |
| EUR      | 134.29 | 177.78 | 146.15 | 151.09 |
| AED      | 35.20  | 42.60  | 36.75  | 38.04  |
| ZAR      | 6.87   | 8.44   | 7.36   | 7.57   |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

# FINANCIAL RISK MANAGEMENT (Continued) 'n

# (c) Market risk (continued)

Currency risk – continued

| 2024  | USD<br>KShs'000 | EUR<br>KShs'000 | GBP<br>KShs'000 | AED<br>KShs'000 | ZAR<br>KShs'000 | Others<br>KShs'000 | Total<br>KShs'000    |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|--------------------|----------------------|
| Assets<br>Cash on hand                                | 64,977          | 3,287           | 4,021           | r               | r               | I.                 | 72,285               |
| Deposits and balances due from banking institutions   | 5,675,697       | 12,170          | 8,798           | 432,577         | 34              | 8                  | 6,129,284            |
| Financing arrangements<br>Other assets                | 6,219,406       | . 9             | I I             | 26              | r r             | T T                | 6,219,406<br>100,504 |
| Total foreign currency assets                         | 12,060,552      | 15,463          | 12,819          | 432,603         | 34              | ∞                  | 12,521,479           |
| Customer deposits                                     | 11,945,085      | 15,535          | 13,170          | 432,067         | ï               |                    | 12,405,857           |
| Due from other banking institutions Other liabilities | 170,995         | 1 100           | 1 —             | - 2             | 1 1             | 1 1                | 171,001              |
| Total foreign currency liabilities                    | 12,116,080      | 15,538          | 13,171          | 432,069         | 1               | ī                  | 12,576,858           |
| Exposure as at 31 December 2024                       | ( 55,528)       | (22)            | (352)           | 534             | 34              | ∞                  | (55,379)             |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (continued)

Currency risk - continued

| carrier in the community   |                     |                 |                 |                 |                 |                    |                     |
|--|---------------------|-----------------|-----------------|-----------------|-----------------|--------------------|---------------------|
| 2023   | USD<br>KShs'000     | EUR<br>KShs'000 | GBP<br>KShs'000 | AED<br>KShs'000 | ZAR<br>KShs'000 | Others<br>KShs'000 | Total<br>KShs'000   |
| Assets Cash on hand  | 81,689              | 2,989           | 4,272           | t               | ı               | ar .               | 88,950              |
| Deposits and balances due from banking institutions Financing arrangements | 4,931,515 5,684,877 | 15,255          | 39,445          | 471,343         | 245             | 74                 | 5,457,877 5,684,877 |
| Other assets  Total foreign currency assets                                | 10,795,368          | 18,252          | 43,717          | 471,374         | 245             | 74                 | 11,329,030          |
| Customer deposits  | 11,571,678          | 17,638          | 43,935          | 471,186         | ı               | Ī                  | 12,104,437          |
| Due from other banking institutions Other liabilities                      | 203,159             | - 2             | 1 🚙             | ' 7             | 1 1             | 1 1                | 203,164             |
| Total foreign currency liabilities   | 11,774,837          | 17,640          | 43,936          | 471,188         | 1               | 1                  | 12,307,601          |
| Exposure as at<br>31 December 2023   | ( 979,469)          | 612             | ( 219)          | 186             | 245             | 74                 | ( 978,571)          |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (d) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The Bank does not, as a policy, engage in any activities that involve receipt or payment of interest or any other non-Shari'ah compliant activities.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Bank's statement of profit or loss. The sensitivity of the statement of profit or loss is the effect of the assumed changes in profit rates on the net income for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December 2024 and 2023.

| Profit Rate                      | Increase in basis | 2024<br>KShs'000 | 2023<br>KShs'000 |
|----------------------------------|-------------------|------------------|------------------|
| Sensitivity of net profit income | 50                | <u>6,201</u>     | 3,003            |

#### (e) Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a Bank to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Risk.

#### (f) Capital management

The Bank's objective when managing capital (regulatory capital) is to comply with the capital requirements as set out by the Central Bank of Kenya and safeguard the Bank's ability to continue as a going concern as well as maintaining a strong capital base to support the development of its business.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (f) Capital management (continued)

Under the regulatory environment, the Central Bank of Kenya requires every financial institution to:

- (a) Maintain a minimum capital of KShs 1,000 million (2023 KShs 1,000 million).
- (b) Maintain a core capital of not less than 8% (2023 8%) of total deposit liabilities.
- (c) Maintain a minimum core capital to risk weighted assets including off-balance sheet assets of 10.5% (2023 10.5%) and
- (d) Maintain a ratio of total capital to risk weighted assets including off-balance sheet assets of not less than 14.5% (2023 14.5%).

The Bank is compliant with all the above requirements.

The Bank calculates capital adequacy ratios for credit risk, market risk and operational risk based upon Basel requirements and the prudential guidelines as issued by the Central Bank of Kenya.

Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

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

Operational risk weighted assets is computed using the basic indicator approach which is based on the average gross revenue over the prior 3 year period.

Market risk weighted assets is computed using a standardised approach based on the foreign exchange exposure as at 31 December each year. The Bank's regulatory capital is analysed into two tiers:

- Core capital (Tier 1), which includes ordinary share capital, share premium, and retained earnings less deferred tax asset.
- Supplementary capital (Tier 2), which includes statutory credit risk reserve and any other approved reserves.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (f) Capital management (continued)

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

| Core capital (Tier 1)  | 2024<br>KShs'000                                  | 2023<br>KShs'000                                  |
|--|---|---|
| Paid up share capital<br>Retained earnings<br>Net after tax losses   | 9,626,754<br>( 4,044,647)<br><u>32,476</u>        | 8,922,754<br>(3,954,483)<br>( <u>199,206</u> )    |
|  | 5,614,583   | 4,769,065   |
| Deferred tax   | ( <u>1,521,724</u> )                              | ( <u>1,592,679</u> )                              |
| Core capital   | 4,092,859   | 3,176,386   |
| Supplementary capital (Tier 2)   |   | 109,042   |
| Total capital  | 4,092,859   | 3,285,428   |
| On balance sheet risk weighted assets<br>Off balance sheet risk weighted assets  | 20,783,372<br>2,131,543                           | 19,286,826<br>                                    |
| Total risk weighted assets   |   |   |
| Capital adequacy ratios  | 2024  | 2023  |
| Percentage of Core Capital to Risk Weighted Asset ratio<br>Minimum requirement<br>Percentage of Total Capital to Risk Weighted Asset ratio<br>Minimum requirement<br>Percentage of Core Capital to Deposits ratio<br>Minimum requirement | 17.9%<br>10.5%<br>17.9%<br>14.5%<br>18.1%<br>8.0% | 15.3%<br>10.5%<br>15.8%<br>14.5%<br>15.5%<br>8.0% |

#### Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (f) Capital management (continued)

#### Capital allocation - continued

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Risk Management Committee and is subject to review by the Credit Committee or Assets and Liability Management Committee as appropriate.

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

#### (g) Financial assets and liabilities and their fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values:

| 31 December 2024  | Amortised<br>cost<br>KShs'000                  | Total<br>carrying<br>amount<br>KShs'000        | Fair value<br>KShs'000                         |
|---|--|--|--|
| Cash and balances with Central Bank<br>Balances due from banking institutions<br>Financing arrangements<br>Other assets | 1,547,464<br>5,814,623<br>17,837,036<br>30,486 | 1,547,464<br>5,814,623<br>17,837,036<br>30,486 | 1,547,464<br>5,814,623<br>13,089,023<br>30,486 |
| Total financial assets  | 25,229,609                                     | 25,229,609                                     | 20,481,596                                     |
| 31 December 2024  | Amortised<br>cost<br>KShs'000                  | Total<br>carrying<br>amount<br>KShs'000        | Fair value<br>KShs'000                         |
| Customer deposits Balances due from banking institutions Other liabilities  | 22,635,208<br>100,030<br>30,375                | 22,635,208<br>100,030<br>30,375                | 22,358,127<br>100,030<br>30,375                |
| Total financial liabilities   | 22,765,613                                     | 22,765,613                                     | 22,488,532                                     |

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (g) Financial assets and liabilities and their fair values (continued)

| 31 December 2023                       | Amortised<br>cost<br>KShs'000 | Total<br>carrying<br>amount<br>KShs'000 | Fair value<br>KShs'000 |
|--|-------------------------------|---|------------------------|
| Cash and balances with Central Bank    | 1,247,637                     | 1,247,637                               | 1,247,637              |
| Balances due from banking institutions | 5,096,235                     | 5,096,235                               | 5,096,235              |
| Financing arrangements                 | 17,366,261                    | 17,366,261                              | 12,554,004             |
| Other assets                           | 23,128                        | 23,128                                  | 23,128                 |
| Total financial assets                 | 23,733,261                    | 23,733,261                              | 18,921,004             |
| 31 December 2023                       | Amortised<br>cost<br>KShs'000 | Total<br>carrying<br>amount<br>KShs'000 | Fair value<br>KShs'000 |
| Customer deposits                      | 20,450,801                    | 20,450,801                              | 20,296,689             |
| Balances due from banking institutions | 600,751                       | 600,751                                 | 600,751                |
| Other liabilities                      | 334,031                       | 334,031                                 | 334,031                |
|  |                               |   |                        |

The fair value of financing arrangements is estimated using discounted cash flow technique which the key observable input into the valuation technique being profit rates. The fair value of the other Bank's financial assets and liabilities approximate their carrying amounts as these are short term in nature and/or are repriced within the year in line with the market rates.

#### Valuation models

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The table below shows certain financial assets and financial liabilities for which fair value has been disclosed in the financial statements, analysed by the level of valuation method. The three levels of valuation methodology used are:

- Level 1: Fair value is based on quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (g) Financial assets and liabilities and their fair values (continued)

#### Valuation models

— Level 3: This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table sets out the fair values of the financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised:

| 31 December<br>2024<br>Assets                             | Level 1<br>KShs'000 | Level 2<br>KShs'000 | Level 3<br>KShs'000 | Total<br>fair values<br>KShs'000 | Total carrying amount KShs'000 |
|---|---------------------|---------------------|---------------------|----------------------------------|--------------------------------|
| Cash and<br>balances with<br>Central Bank<br>Balances due |                     | 1,547,464           | -                   | 1,547,464                        | 1,547,464                      |
| from banking institutions Financing                       | -                   | 5,814,623           | -                   | 5,814,623                        | 5,814,623                      |
| arrangements Other assets                                 |                     | 30,486              | 13,089,023          | 13,089,023<br>30,486             | 17,837,036<br>30,486           |
| Liabilities Customer deposits Balances due                | -                   | 22,358,127          |                     | 22,358,127                       | 22,635,208                     |
| to banking institutions Other                             | -                   | 100,030             |                     | 100,030                          | 100,030                        |
| liabilities   |                     | 30,375              |                     | 30,375                           | 30,375                         |

Except as detailed in the above table, management considers that the carrying amounts of financial assets and financial liabilities recognised in the financial statement approximate their fair values and is included in levels 2 and 3.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (g) Financial assets and liabilities and their fair values (continued)

| 31 December 2023  | Level 1  | Level 2              | Level 3    | Total<br>fair values | Total carrying amount |
|---|----------|----------------------|------------|----------------------|-----------------------|
| Assets  | KShs'000 | KShs'000             | KShs'000   | KShs'000             | KShs'000              |
| Cash and<br>balances with<br>Central Bank<br>Balances due | -        | 1,247,637            | -          | 1,247,637            | 1,247,637             |
| from banking institutions Financing                       |          | 5,096,235            | <b></b>    | 5,096,235            | 5,096,235             |
| arrangements  | _        | ).<br>1 <del>2</del> | 12,554,004 | 12,554,004           | 17,366,261            |
| Other assets  |          | 23,128               |            | 23,128               | 23,128                |
| Liabilities Customer deposits Balances due                | -        | 20,296,689           | -          | 20,296,689           | 20,450,801            |
| to banking<br>institutions<br>Other                       | -        | 600,751              | -          | 600,751              | 600,751               |
| liabilities   | _        | 334,031              | iii.       | 334,031              | 334,031               |

Transfers between levels of the fair value hierarchy are recognised by the Bank at the end of the reporting period during which the change occurred. There was no transfer between the fair value hierarchy during the year.

#### (h) Level 3 fair value measurement

#### (i) Reconciliation

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy for the financing arrangement.

|                              | 2024<br>KShs'000 | 2023<br>KShs'000     |
|------------------------------|------------------|----------------------|
| Balance at 1 January         | 12,554,004       | 8,621,787            |
| Total loss in profit or loss | 1,240,886        | ( 14,954)            |
| Issue                        | 6,948,391        | 9,129,368            |
| Settlements                  | (_7,654,258)     | ( <u>5,182,197</u> ) |
| Balance at 31 December       | 13,089,023       | 12,554,004           |

#### (ii) Unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used at 31 December 2024 and 2023 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

The same

#### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### FINANCIAL RISK MANAGEMENT (Continued) 5.

#### Level 3 fair value measurement (continued) (h)

#### Unobservable inputs used in measuring fair value - continued

| Types of financial instruments | Fair value at 31<br>December 2024<br>KShs'000 | Valuation<br>technique | Significant<br>unobservable<br>input | Inter- relationship between significant unobservable inputs and fair value measurement |
|--------------------------------|---|------------------------|--------------------------------------|--|
|                                | 9   |                        |                                      | The fair value of the financing  |
|                                |   |                        |                                      | arrangement is inversely related   |
|                                |   |                        |                                      | to the risk-   |
|                                |   |                        |                                      | adjusted discount  |
|                                |   |                        |                                      | rate. For example, If the discount   |
|                                |   |                        |                                      | rate increases, the  |
|                                |   |                        |                                      | present value of   |
|                                | KShs 13,089,022                               |                        |                                      | future cash flows<br>decreases, leading  |
| Financing                      | (2023:KShs                                    | Discounted             | Risk-adjusted                        | to a lower fair  |
| arrangement                    | 12,554,004)                                   | cash flow              | discount rate                        | value.   |

#### 6. INCOME FROM FINANCING AND INVESTING ACTIVITIES

|  | 2024<br>KShs'000     | 2023<br>KShs'000     |
|--|----------------------|----------------------|
| Income from financing arrangements Income from investing assets - placements | 2,325,809<br>227,343 | 1,652,904<br>156,522 |
|  | 2,553,152            | <u>1,809,426</u>     |

The amounts reported above relates to profit income calculated using the effective profit rate method that relate to financial assets not carried at fair value through profit or loss.

#### DEPOSITORS SHARE OF PROFITS 7.

| DELOSITORS SHARE OF TROPITS                       | 2024<br>KShs'000        | 2023<br>KShs'000             |
|---|-------------------------|------------------------------|
| Time deposits Savings deposits Interbank deposits | 1,515,393<br>25,994<br> | 915,522<br>13,912<br>141,578 |
|   | 1,648,280               | 1,071,012                    |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

| 970 m 3670 f | A CONTRACTOR OF |
|--------------|---|
| 0            |   |
| 8.           | INCOME  |
| U.           |   |

| (a) | Fees and commission income          | 2024<br>KShs'000 | 2023<br>KShs'000 |
|-----|-------------------------------------|------------------|------------------|
|     | Credit related fees and commissions | 68,037           | 44,297           |
|     | Gains on foreign currency dealings  | 148,184          | 113,076          |
|     | Other fees                          | <u>774,976</u>   | _33,887          |
|     |                                     | <u>991,197</u>   | <u>191,260</u>   |

Gains on foreign currency dealings arose from trading in foreign currency transactions and also on the translation of foreign currency assets and liabilities. Other fees relate to service charge on various bank services and income on digital channels.

| Other income/(expenses)  | 2024<br>KShs'000  | 2023<br>KShs'000  |
|--|---|---|
| Loss on lease termination Other income   | <u>809</u>  | (5,466)<br>982  |
| PENSES   | <u>809</u>  | ( <u>4,484</u> )  |
| Personnel expenses   | 2024<br>KShs'000  | 2023<br>KShs'000  |
| Salaries and allowances Other staff cost Directors emoluments – executive  | 371,917<br>110,426<br>13,837  | 334,023<br>85,611<br>_12,060  |
|  | <u>496,180</u>  | <u>431,694</u>  |
| The number of persons employed by the Bank as These are as follows:  | at the year-end was   | 138 (2023 – 121).   |
| Average number of employees  | 2024  | 2023  |
| Senior management<br>Junior management and supervisors<br>Other staff  | 12<br>46<br><u>80</u><br><b>138</b>   | 13<br>56<br>_52<br><b>121</b>   |
| Other operating expenses   | _   | · ·   |
| Insurance expenses Legal and professional fees Directors' emoluments – non executive IT related Subscriptions Travel Marketing and publicity Administrative expenses Security Other expenses (see below) | 7,997 26,523 10,970 215,833 72,622 22,968 18,585 43,555 10,810 94,166   | 7,169 23,365 9,800 188,917 58,451 16,886 16,467 46,953 10,806 114,193 |
|  | Loss on lease termination Other income  PENSES  Personnel expenses  Salaries and allowances Other staff cost Directors emoluments – executive  The number of persons employed by the Bank as These are as follows:  Average number of employees  Senior management Junior management and supervisors Other staff  Other operating expenses  Insurance expenses Legal and professional fees Directors' emoluments – non executive IT related Subscriptions Travel Marketing and publicity Administrative expenses Security | Loss on lease termination   |

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 9. EXPENSES (Continued)

|     | (b) | Other operating expenses (continued)   | 2024<br>KShs'000   | 2023<br>KShs'000  |
|-----|-----|--|--|---|
|     |     | Other expenses   |  |   |
|     |     | Audit fee Bank charges Banking license Board of directors expenses Reuters Stamp duty Stationery Swift charges Trade licences Other expenses   | 5,914<br>11,432<br>1,610<br>2,306<br>21,919<br>7,040<br>17,480<br>3,289<br>3,071<br>20,105 | 5,633<br>15,105<br>1,367<br>2,994<br>18,725<br>13,667<br>13,703<br>5,947<br>3,077<br>33,975 |
|     |     |  | <u>94,166</u>  | <u>114,193</u>  |
| 10. | TAX | KATION   |  |   |
|     | (a) | Taxation credit  |  |   |
|     |     | Current taxation based on the taxable profit for the period at 30% (2023 – 30%)  |  |   |
|     |     | Deferred tax charge/(credit) (Note 19) – current year  | 70,955   | ( <u>57,370</u> )   |
|     |     |  | <u>70,955</u>  | ( <u>57,370</u> )   |
|     | (b) | Reconciliation of taxation expense/(credit) to the expected taxation based on profit before taxation   |  |   |
|     |     | Profit/(loss) before tax   | 103,431  | ( <u>256,576</u> )  |
|     |     | Tax at the applicable rate of $30\%$ ( $2023 - 30\%$ )<br>Effect of income not subject to tax and expenses   | 31,029   | ( 76,973)   |
|     |     | disallowed for tax purposes  | _39,926  | _19,603   |
|     |     | Taxation expense/(credit)  | <u>70,955</u>  | ( <u>57,370</u> )   |
|     |     | Effective tax rate   | <u>68.60%</u>  | <b>22.36</b> %  |
|     |     | Profit/(loss) before tax   |  |   |
|     |     | Loss before tax is arrived at after charging/(crediting)   |  |   |
|     |     | Depreciation expense on property and equipment (Note 16)  Amortisation of right of use asset (Note 17 (a))  Amortisation of intangible assets (Note 18)  Directors' emoluments – non-executive  – executive (Note 29)  Loss on lease termination  Auditor's remuneration | 113,143<br>68,320<br>88,341<br>10,970<br>13,837<br>  | 45,829<br>68,321<br>78,969<br>9,800<br>12,060<br>(5,466)<br>                                |

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 11. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

|  | 2024<br>KShs'000   | 2023<br>KShs'000   |
|--|--------------------|--------------------|
| Cash on hand   | 283,185            | 241,484            |
| Balances with Central Bank of Kenya (CBK): - Restricted balances (cash reserve ratio) - Unrestricted balances with CBK | 614,186<br>650,093 | 549,271<br>456,882 |
|  | 1,264,279          | 1,006,153          |
|  | 1,547,464          | 1,247,637          |

The expected credit losses on the above exposures was assessed as immaterial hence no adjustment has been made in these financial statements; Note 5 (a).

The cash reserve ratio requirement is based on the customer deposits with the bank as adjusted by the Central Bank of Kenya requirements. As at 31 December 2024 the cash reserve ratio requirement was 4.25% (2023 - 4.25%) of all customer deposits. These funds are however available for use by the Bank in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3% of the requirement and provided that the overall average in the month is at least 4.25% (2023 - 4.25%).

#### 12. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

|   | 2024<br>KShs'000     | 2023<br>KShs'000     |
|---|----------------------|----------------------|
| Placements with other banks<br>Deposits and other balances with banks | 4,942,573<br>872,050 | 4,167,286<br>928,949 |
|   | <u>5,814,623</u>     | 5,096,235            |

Expected credit losses on the above exposures was assessed as immaterial hence no adjustment has been made in these financial statements; Note 5(a). The weighted average effective profit rate for deposits and placements with other banks at 31 December 2024 was 4.70% (2023 -5.55%). All the above balances have maturities of less than 90 days from the date of acquisition.

| 13. | FINANCING ARRANGEMENTS                      | 2024<br>KShs'000       | 2023<br>KShs'000       |
|-----|---|------------------------|------------------------|
|     | <b>Classification</b><br>Murabaha<br>Ijarah | 9,233,752<br>9,308,327 | 8,246,686<br>9,417,549 |
|     | Gross financing arrangements                | 18,542,079             | 17,664,235             |
|     | Impairment provisions (Note 14 (b))         | (705,043)              | (297,974)              |
|     | Net financing arrangements                  | <u>17,837,036</u>      | <u>17,366,261</u>      |

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

| 13. FIN.             | ANCING ARRANGEMENTS (Continued)   | 2024<br>KShs'000                                 | 2023<br>KShs'000  |
|----------------------|---|--|---|
| Less<br>3 mo<br>1 to | ayable within: than 3 months onths to 1 year 5 years r 5 years  | 4,328,042<br>3,222,186<br>4,618,697<br>6,373,154 | 3,091,405<br>3,466,669<br>4,458,430<br><u>6,647,731</u> |
| 14 PDC               | NACION EOD TAMBA I DAMENTE I OCCEC  | <u>18,542,079</u>                                | <u>17,664,235</u>                                       |
| 14. PRC              | OVISION FOR IMPAIRMENT LOSSES   |  |   |
| (a)                  | Impairment losses on financing arrangements Net re-measurement of loss allowance Net financing arrangements originated Financing arrangements recognised/(derecognised) | 363,374<br>46,520<br>70,842                      | 64,546<br>10,378<br>( <u>37,588</u> )                   |
|                      | Charge for the year   | 480,736  | <u>37,336</u>   |
| (b)                  | Total impairment losses on financing arrangements are classified are as follows:  |  |   |
|                      | Impairment losses on Murabaha<br>Impairment losses on Ijarah  | 494,862<br>                                      | 160,265<br>   |
|                      |   | 705,043  | 297,974   |
|                      | Impairment losses on off balance sheet items  | <u>823</u>                                       | 216   |
| 15. OTI              | HER ASSETS  |  |   |
| Othe                 | ayments<br>er receivables<br>undable deposit  | 306,342<br>763,533<br>30,485<br>                 | 196,507<br>30,591<br>23,128<br>                         |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

# 16. PROPERTY AND EQUIPMENT

| 2024:                       | Leasehold<br>improvements<br>KShs'000 | Equipment<br>furniture<br>and fittings<br>KShs'000 | Motor<br>vehicles<br>KShs'000 | Work in<br>progress*<br>(WIP)<br>KShs'000 | Total<br>KShs'000 |
|-----------------------------|---------------------------------------|--|-------------------------------|---|-------------------|
| Cost                        |                                       |  |                               |   |                   |
| At 1 January 2024 as        |                                       |  |                               |   |                   |
| previously stated           | 280,841                               | 452,683  | 6,734                         | : <del>-</del>                            | 740,258           |
| Transfer from intangible    |                                       |  |                               |   |                   |
| asset (note 18 and note 33) | <del>-</del>                          | 97   |                               | 242,964                                   | 242,964           |
| At 1 January 2024-          |                                       |  |                               |   |                   |
| Restated                    | 280,841                               | 452,683  | 6,734                         | 242,964                                   | 983,222           |
| Additions                   | 434                                   | 157,986  | 9,500                         | 2,855                                     | 170,775           |
| Transfer from WIP           | -                                     | 242,964  | (=:                           | (242,964)                                 |                   |
| Disposal                    | ( 28,764)                             |  | <u>=</u>                      |   | ( 28,764)         |
|                             |                                       |  |                               |   |                   |
| At 31 December 2024         | 252,511                               | 853,633  | 16,234                        | 2,855                                     | 1,125,233         |
| Depreciation                |                                       |  |                               |   |                   |
| At 1 January 2024           | 247,532                               | 382,612  | 6,734                         | -   | 636,878           |
| Charge for the year         | 10,044                                | 102,901  | 198                           | -   | 113,143           |
| Disposal                    | ( 28,764)                             |  |                               | =   | (28,764)          |
|                             |                                       |  |                               |   |                   |
| At 31 December 2024         | 228,812                               | 485,513  | 6,932                         | -   | 721,257           |
| Carrying amount             |                                       |  |                               |   |                   |
| At 31 December 2024         | 23,699                                | 368,120  | 9,302                         | 2,855                                     | 403,976           |

<sup>\*</sup>Work in in progress as at 31 December 2024 related to various projects that have commenced but not completed.

| 2023:- Restated                                     | Leasehold<br>improvements<br>KShs'000 | Equipment<br>furniture<br>and fittings<br>KShs'000 | Motor<br>vehicles<br>KShs'000 | Work in<br>progress<br>(WIP)<br>KShs'000 | Total<br>KShs'000 |
|---|---------------------------------------|--|-------------------------------|--|-------------------|
| Cost  |                                       |  |                               |  |                   |
| At 1 January 2023                                   | 263,104                               | 436,201  | 6,734                         | _  | 706,039           |
| Additions- Restated                                 | 17,737                                | 16,482   | 9887<br>                      | 242,964                                  | 277,183           |
|   |                                       |  |                               |  |                   |
| At 31 December 2023                                 | 280,841                               | 452,683  | 6,734                         | 242,964                                  | 983,222           |
| Depreciation  |                                       |  |                               |  |                   |
| At 1 January 2023                                   | 237,473                               | 346,842  | 6,734                         | =  | 591,049           |
| Charge for the year                                 | 10,059                                | 35,770   |                               | _  | 45,829            |
| At 31 December 2023-                                | 247,532                               | 382,612  | 6,734                         | -  | 636,878           |
| Carrying amount<br>At 31 December 2023-<br>Restated | 33,309                                | 70,071   |                               | 242,964                                  | 346,344           |
| Restateu  | 33,309                                | 70,071   |                               |  |                   |
|   |                                       |  |                               | 1  | Page 72           |



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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

### 16. PROPERTY AND EQUIPMENT (Continued)

Included in the property and equipment are assets that were still in use with a cost value of KShs 691,996,108 which were fully depreciated as at 31 December 2024 (2023 – 681,024,540). The notional depreciation for the fully depreciated assets was KShs 161,527,765 (2023 – 150,395,176).

### 17. RIGHT-OF-USE ASSET

The Bank leases office space for its use. Information about the leases in which the Bank is a lessee is presented below:

| 1   |  | 2024<br>KShs'000                            | 2023<br>KShs'000                            |
|-----|--|---|---|
| (a) | Right of Use Asset   |   |   |
|     | Balance as at 1 January Additions Disposal Amortization charge for the year  | 183,952<br>65,416<br>-<br>( <u>68,320</u> ) | 224,692<br>50,725<br>( 23,144)<br>( 68,321) |
|     | Balance as at 31 December  | <u>181,048</u>                              | <u>183,952</u>                              |
| (b) | Amount recognised in the profit or loss                                      |   |   |
|     | Interest on lease liabilities<br>Amortization charge for the year            | 22,698<br>68,320                            | 26,610<br>68,321                            |
|     |  | 91,018                                      | 94,931                                      |
|     | The maturity analysis of lease liabilities is presented in No                | ote 22.                                     |   |
| (c) | Amounts recognised in cash flows   | 2024<br>KShs'000                            | 2023<br>KShs'000                            |
|     | Payment of principal lease liabilities<br>Interest paid on lease liabilities | 76,096<br>22,698                            | 58,340<br>26,610                            |
|     | At the end of the year   | <u>98,794</u>                               | <u>84,950</u>                               |

All of the property leases in which the Bank is the lessee contain only fixed payments. The total cash outflow for leases amount to KShs 99 million (2023 – KShs 85 million).

There are no restrictions or covenants imposed by leases and the Bank did not enter into any sale and leaseback transactions during the year (2023 - Nil).

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

## 18. INTANGIBLE ASSETS - COMPUTER SOFTWARE

19.

| 2024:   | Intangible<br>assets<br>KShs'000                   | Work in<br>progress<br>(wip)<br>KShs'000 | Total<br>KShs'000  |
|---|--|--|--|
| Cost At 1 January 2024 as previously stated   | 757,511  | 347,488                                  | 1,104,999  |
| Transfer to property and equipment (Note 16 and Note 33)  |  | ( 242,964)                               | ( 242,964)   |
| At 1 January 2024 - Restated Transfer from WIP  | 757,511<br>65,545                                  | 104,524<br>( 65,545)                     | 862,035  |
| Additions   | 32,291   | 91,865                                   | 124,156  |
| At 31 December 2024   | 855,347  | 130,844                                  | 986,191  |
| <b>Depreciation</b> At 1 January 2024 Charge for the year   | 455,705<br>88,341                                  | -  | 455,705<br>88,341  |
| At 31 December 2024   | 544,046  | -  | 544,046  |
| Carrying amount At 31 December 2024   | 311,301  | 130,844                                  | 442,145  |
|   | Intangible   | Work in progress                         |  |
|   |  |  |  |
| 2023:- Restated   | assets<br>KShs'000                                 | (WIP)<br>KShs'000                        | Total<br>KShs'000  |
| 2023:- Restated  Cost At 1 January 2023 Additions- Restated   | assets<br>KShs'000<br>757,511                      | (WIP)<br>KShs'000                        | Total<br>KShs'000<br>757,511<br>104,524                                  |
| Cost<br>At 1 January 2023   | KShs'000   | KShs'000                                 | <b>KShs'000</b> 757,511  |
| Cost At 1 January 2023 Additions- Restated  | <b>KShs'000</b> 757,511                            | KShs'000                                 | <b>KShs'000</b> 757,511 104,524  |
| Cost At 1 January 2023 Additions- Restated At 31 December 2023  Depreciation At 1 January 2023  | 757,511<br>  | KShs'000                                 | KShs'000  757,511 104,524  862,035                                       |
| Cost At 1 January 2023 Additions- Restated At 31 December 2023  Depreciation At 1 January 2023 Charge for the year  | 757,511<br>  | KShs'000                                 | KShs'000  757,511 104,524  862,035  376,736 78,969                       |
| Cost At 1 January 2023 Additions- Restated At 31 December 2023  Depreciation At 1 January 2023 Charge for the year At 31 December 2023  Carrying amount At 31 December 2023-Restated  DEFERRED TAXATION | 757,511<br>  | 104,524<br>104,524                       | XShs'000  757,511 104,524  862,035  376,736 78,969  455,705              |
| Cost At 1 January 2023 Additions- Restated At 31 December 2023  Depreciation At 1 January 2023 Charge for the year At 31 December 2023  Carrying amount At 31 December 2023-Restated                    | 757,511  757,511  376,736 78,969  455,705  301,806 | 104,524<br>104,524<br>104,524<br>2024    | 757,511<br>104,524<br>862,035<br>376,736<br>78,969<br>455,705<br>406,330 |

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## <u>DIB BANK KENYA LIMITED</u>

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

#### 19. **DEFERRED TAXATION (Continued)**

| The movement on the deferred tax asset account is as follows: | 2024<br>KShs'000             | 2023<br>KShs'000                 |
|---|------------------------------|----------------------------------|
| As at 1 January<br>Expense/(credit) for the year              | (1,592,679)<br><u>70,955</u> | (1,535,309)<br>( <u>57,370</u> ) |
| At 31 December  | (1,521,724)                  | (1,592,679)                      |

The Bank has operated for 7 years and 7 months as at 31 December 2024. Over the years, the directors have put in place strategies that have eventually yielded profitability through business growth, strategic investments, and cost management. The Bank achieved full year profitability in 2024 and is projected to sustain this positive trajectory in 2025 which affirms the Bank's ability to continue as a going concern. Additionally, the current tax laws, allows an institution to use tax credits against future tax liabilities in perpetuity. On the foregoing, the management considers it prudent to recognise the deferred tax asset of KShs 1,521,724,000 in its balance sheet.

| 20. | CUS  | TOMER DEPOSITS   | 2024<br>KShs '000                                     | 2023<br>KShs '000                                     |
|-----|------|--|---|---|
|     | Curr | e deposits ent accounts deposits ngs accounts deposits                             | 17,346,382<br>2,941,453<br>_2,347,373                 | 16,181,639<br>2,888,114<br>_1,381,048                 |
|     |      |  | 22,635,208  | 20,450,801  |
| 21. |      | OSITS AND BALANCES DUE<br>BANKING INSTITUTIONS                                     | 100,030   | 600,751   |
| 22. | LEA  | SE LIABILITIES   |   |   |
|     |      | ounts due for settlement within 12 months ounts due for settlement after 12 months | 70,497<br>144,797                                     | 90,955<br>135,019                                     |
|     |      |  | 215,294   | <u>225,974</u>  |
|     | (a)  | Lease liabilities movement   |   |   |
|     |      | As at 1 January<br>Additions<br>Disposal<br>Interest<br>Payments                   | 225,973<br>65,417<br>-<br>22,698<br>( <u>98,794</u> ) | 260,763<br>50,724<br>( 27,174)<br>26,610<br>( 84,950) |
|     |      | At 31 December   | ( <u>215,294</u> )                                    | ( <u>225,973</u> )                                    |

Maturity analysis of lease liabilities based on undiscounted cash flows are as follows:

|        | 2024<br>KShs '000 | 2023<br>KShs '000 |
|--------|-------------------|-------------------|
| Year 1 | 97,951            | 92,512            |
| Year 2 | 70,625            | 81,866            |
| Year 3 | 37,669            | 54,586            |
| Year 4 | 33,459            | 13,185            |
| Year 5 | _18,763           | 17,770            |
|        | <u>258,467</u>    | <u>259,919</u>    |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

| 23. | OTHER LIABILITIES  | 2024<br>KShs '000                       | 2023<br>KShs '000                      |
|-----|--|---|--|
|     | Accruals Due to related parties (Note 29) Deferred fee income* Other payables (see below)  | 47,627<br>12,894<br>96,997<br>94,209    | 34,430<br>9,291<br>181,299<br>_56,635  |
|     |  | <u>251,727</u>                          | <u>281,655</u>                         |
|     | * Relates to upfront fees on financing assets. These facilities.   | fees are amortised of                   | over the life of the                   |
|     | Other payables   | 2024                                    | 2023                                   |
|     | Other payables   | KShs '000                               | KShs '000                              |
| 24. | Charity payable (Note 27) Statutory payables Profit in suspense Bankers cheques payable Profit payable on swaps Other payables  PROVISION Other provisions | 1,740 22,637 36,825 3,304 29,703 94,209 | 1,651 13,267 16,336 4,772 13,247 7,362 |
|     | Movement in provisions   |   |  |
|     | Other payables   |   |  |
|     | Balance as at 1 January 2024 Provisions used during the year Provisions reversed during the year   | 52,376<br>( 15,151)<br>( 5,691)         | 20,936<br>33,022<br>( <u>1,582</u> )   |
|     | Balance as at 31 December 2024   | <u>31,534</u>                           | <u>52,376</u>                          |

### Litigations

In the ordinary course of business, the Bank is a defendant in various litigations and claims. Although there can be no assurances, the Directors believe, based on the information currently available and legal advice, that the claims can successfully be defended. Given the nature of these legal cases, the Directors are of the opinion that disclosing the details of each case can be expected to prejudice the position of the Bank with other parties. The Bank has however recognised a provision for present obligations where the payments are probable, and amounts can be estimated reliably. Provisions for litigations as at 31 December 2024 amounted to KShs 31,533,773 (2023 – KShs 52,375,861).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

| 25. S | SHA | RE CAPITAL   | 2024  | 2023                                       |
|-------|-----|--|---|--|
| (     | (a) | Authorised, issued and fully paid:   | KShs '000   | KShs '000                                  |
|       |     | At 1 January 2024: 8,922,754 (2023 – 7,556,039) ordinary shares of KShs 1,000 each Issue of shares during the year 704,000   | 8,922,754   | 7,556,039                                  |
|       |     | (2023 –1,366,715) ordinary shares at KShs 1,000  | 704,000   | 1,366,715                                  |
|       |     | At 31 December 2024: 9,626,754 (2023 – 8,922,754) ordin4ary shares of KShs 1,000 each  | <u>9,626,754</u>                                  | 8,922,754                                  |
|       |     | The holders of ordinary shares are entitled to receive ditime and are entitled to one vote per share at meetings rank equally with regard to the Bank's residual assets. | ividends as dec<br>of the Bank. A                 | clared from time to<br>All ordinary shares |
| (     | (b) | Statutory credit risk reserve  | 2024<br>KShs '000                                 | 2023<br>KShs '000                          |
|       |     | As at 1 January 2024 Transfer to/(from) retained earnings  | 109,042<br>( <u>109,042</u> )                     | 79,046<br>29,996                           |
|       |     | As at 31 December 2024   |   | 109,042                                    |
| 26. N | TO  | ES TO THE STATEMENT OF CASH FLOWS  |   |  |
| (:    | a)  | Reconciliation of loss before taxation to cash generated from operations   | 2024<br>KShs'000                                  | 2023<br>KShs'000                           |
|       |     | Profit/(loss) before taxation  Adjustments for:  | 103,431   | ( 256,576)                                 |
|       |     | Depreciation of property and equipment (Note 16)   | 113,143   | 45,829                                     |
|       |     | Effect of movements in exchange rate on cash held  | 673   | 2,433                                      |
|       |     | Loss on lease termination (Note 8(b))  | -   | 5,466                                      |
|       |     | Amortization of right of use asset (Note 17(a))  | 68,320  | 68,321                                     |
|       |     | Amortization of intangible assets (Note 18)  | 88,341  | 78,969                                     |
|       |     | Interest on lease liabilities (Note 17(c))   | 22,698  | 26,610                                     |
|       |     | Changes in:  | 396,606   | ( 28,948)                                  |
|       |     | Changes in.  |   |  |
|       |     | Balances held by<br>Central Bank of Kenya under lien (cash reserve ratio)<br>Financing arrangements<br>Other assets  | ( 470,775)<br>( 850,134)                          | ( 175,489)<br>(5,449,268)<br>( 52,845)     |
|       |     | Customer deposits<br>Balances due to financial institutions<br>Provisions<br>Other liabilities   | 2,184,407<br>( 500,721)<br>( 20,842)<br>( 29,928) | 6,443,354<br>600,751<br>41,789<br>34,726   |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

### 26. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

| (b) | Analysis of balances of cash and cash equivalents as shown in the financial position and notes | 2024<br>KShs'000 | 2023<br>KShs'000 |
|-----|--|------------------|------------------|
|     | Cash on hand (Note 11) Deposits and balances due from  | 283,185          | 241,484          |
|     | banking institutions (Note 12) Current account with  | 5,814,623        | 5,096,235        |
|     | Central Bank of Kenya (Note 11)  | 650,093          | 456,882          |
|     |  | <u>6,747,901</u> | <u>5,794,601</u> |

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

| 27. | CHARITABLE WELFARE FUND                                 | 2024<br>KShs'000 | 2023<br>KShs'000 |
|-----|---|------------------|------------------|
|     | As at January and December<br>Additions during the year | 1,651<br>89      | 1,651            |
|     | As at January and December                              | 1,740            | 1,651            |

Transfers to charitable welfare fund represents income deemed to be non-Shari'ah compliant either because it is from a non-Shari'ah compliant source or the underlying transactions had been found to be in breach of Shari'ah principles. The transfers as above have been presented within other liabilities.

# 28. CONTINGENCIES AND COMMITMENTS INCLUDING OFF FINANCIAL POSITION ITEMS

| (a) | Contingent liabilities          | 2024<br>KShs'000   | 2023<br>KShs'000  |
|-----|---------------------------------|--------------------|-------------------|
|     | Letters of credit<br>Guarantees | 452,375<br>299,758 | 33,380<br>864,293 |
|     | Bills of collections            | 177,364            | 80,373            |
|     |                                 | <u>929,497</u>     | <u>978,046</u>    |

The contingent liabilities are commitments by the Bank to make payments to third parties, on production of documents, on behalf of customers and are reimbursable by customers.

(b) The Bank has budgeted to incur a capital expenditure of KShs 583,432,182 as at 31 December 2024 (2023 – KShs 772,175,445).

#### (c) Commitments to extend credit

These are commitments in which the Bank enters into financial agreements to finance a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw without incurring any charges from its contractual obligation to extend credit by giving reasonable notice to the customer.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

# 28. CONTINGENCIES AND COMMITMENTS INCLUDING OFF FINANCIAL POSITION ITEMS (Continued)

### (c) Commitments to extend credit (continued)

2024 2023 KShs'000 KShs'000

Commitments

Undrawn commitments

2,390,185

2,339,910

## 29. RELATED PARTY TRANSACTIONS

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 operational decisions.

Placements at 31 December 2024 include placements made in the Bank by Directors, their associates and companies associated to Directors. Advances to customers and deposits at 31 December 2024 include financing facilities and advances to companies associated to Directors employees of the bank and, also deposits held with related parties respectively.

|   | Direc                | tors'    |                 |          |
|---|----------------------|----------|-----------------|----------|
|   | associated companies |          | Employees/staff |          |
|   | 2024                 | 2023     | 2024            | 2023     |
|   | KShs'000             | KShs'000 | KShs'000        | KShs'000 |
| Movement in related party balances was as |                      |          |                 |          |
| follows:                                  |                      |          |                 |          |
| Deposits:                                 |                      |          |                 |          |
| At 1 January                              | 25,045               | 52,953   | 18,527          | 30,890   |
| Net movement during the year              | ( 931)               | (27,908) | ( 1,118)        | (12,363) |
| At 31 December                            | 24,114               | 25,045   | 17,409          | 18,527   |

The above balances are part of customer deposits and has been reported in the statement of financial position.

| Balances due to related party – parent company | 2024<br>KShs'000 | 2023<br>KShs'000 |
|--|------------------|------------------|
| Dubai Islamic Bank PJSC                        | <u>12,894</u>    | <u>9,291</u>     |

The related party transactions with Dubai Islamic Bank PJSC (The parent company) relate to reimbursement of travel expenses incurred by DIB Kenya Limited and paid for by the parent Bank.

As disclosed at Note 5(b), the Bank has a credit line of USD 52 million (KShs 6.7bn) with the parent company from which it can draw on a need basis to mitigate short term liquidity mismatches.

#### Key management and directors remuneration

The remuneration of directors and other members of key management during the year were as follows:

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

## 29. RELATED PARTY TRANSACTIONS (Continued)

|                    | 2024<br>KShs'000 | 2023<br>KShs'000 |
|--------------------|------------------|------------------|
| Key management     | 111,538          | 83,576           |
| Executive director | 13,837           | 12,060           |
| Other directors    | <u> 10,970</u>   | 9,800            |

The remuneration of Directors and key executives is determined by the Board of Directors having regard to the performance of the individuals and market trends.

### 30. FIDUCIARY ACTIVITIES

At 31 December 2024, the Bank did not hold any asset security documents on behalf of customers (2023 – Nil).

#### 31. COUNTRY OF INCORPORATION

The Bank is incorporated in Kenya under the Kenyan Companies Act and domiciled in Kenya. The holding entity (parent company) is Dubai Islamic Bank PJSC which is incorporated in United Arab Emirates.

### 32. EVENTS AFTER REPORTING PERIOD

There are no significant events after the reporting period which require to be adjusted or reported in these financial statements.

#### 33. CORRECTION OF PRIOR PERIOD ERRORS

(a) The comparative figures in the statement of financial position has been corrected to appropriately reclassify work in progress relating to hardware from intangible assets to property and equipment.

The restatements did not have an impact on the statement of profit or loss and other comprehensive income.

The effect of the restatements on the financial statements is detailed below:

#### Statement of financial position as at 31 December 2023

|   | 2023<br>As                          |                                      | 2023                            |
|---|-------------------------------------|--------------------------------------|---------------------------------|
|   | previously<br>reported<br>KShs '000 | Effect of reclassification KShs '000 | As<br>reclassified<br>KShs '000 |
| Property and equipment<br>Intangible assets | 103,380<br>649,294                  | 242,964<br>(242,964)                 | 346,344<br>406,330              |
| Total                                       | 752,674                             | _                                    | 752,674                         |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

# 33. CORRECTION OF PRIOR PERIOD ERRORS (Continued)

(a) Statement of financial position as at 31 December 2023 (continued)

|     |   | 2023<br>As                          |                                      | 2023                            |  |
|-----|---|-------------------------------------|--------------------------------------|---------------------------------|--|
|     |   | previously<br>reported<br>KShs '000 | Effect of reclassification KShs '000 | As<br>reclassified<br>KShs '000 |  |
|     | Purchase of equipment<br>Purchase of intangible assets  | ( 34,219)<br>(347,488)              | (242,964)<br>242,964                 | (277,183)<br>(104,524)          |  |
|     | Net cash used in investing activities   | (381,707)                           | -                                    | (381,707)                       |  |
| (b) | Reclassification of payment on termination of lease from operating activities to financing activities |                                     |                                      |                                 |  |
|     |   | 2023<br>As                          |                                      | 2023                            |  |
|     |   | previously<br>reported<br>KShs '000 | Effect of reclassification KShs '000 | As<br>reclassified<br>KShs '000 |  |
|     | Cash flow from operating activities   |                                     |                                      |                                 |  |
|     | Payment on termination of lease   | ( 9,496)                            | 9,496                                | =                               |  |
|     | Net cash generated from/(used in) operating activities  | 1,375,531                           | 9,496                                | 1,385,027                       |  |
|     |   | KShs '000                           | KShs '000                            | KShs '000                       |  |
|     | Cash flow from financing activities Payment on termination of lease                                   |                                     | ( 9,496)                             | ( 0.406)                        |  |
|     | rayment on termination of lease   |                                     | ( 9,490)                             | ( 9,496)                        |  |
|     | Net cash generated from financing activities  | 1,308,375                           | ( 9,496)                             | 1,298,879                       |  |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

## 33. CORRECTION OF PRIOR PERIOD ERRORS (Continued)

(c) the presentation of the statement on cashflows has been changed to present the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency in the statement of cash flows so as to reconcile cash and cash equivalents at the beginning and the end of the period in accordance with IAS 7.28.

The effect of exchange rate changes on cash and cash equivalents has been presented as follows:

|  | 2023<br>KShs'000              |
|--|-------------------------------|
| Net cash from/(used in) operating activities as previously reported<br>Effects of movement on exchange rates on cash held      | 1,411,637<br>( <u>2,433</u> ) |
| Net cash from/(used in) operating activities as restated   | <u>1,414,070</u>              |
| Net increase/(decrease) in cash and cash equivalent as previously reported  Effects of movement on exchange rates on cash held | 2,301,199<br>                 |
| Net increase in cash and cash equivalent as restated   | 2,304,632                     |

The changes above have been effected to enhance presentation and did not have any impact on the investing and financing cashflows in the statement of cashflow.