


REPUBLIC OF KENYA



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 <b>THE NATIONAL ASSEMBLY PAPERS LAID</b>		
<b>REPORT</b>	<b>DATE:</b> 29 APR 2025	<b>DAY:</b> Tuesday
<b>TABLED BY:</b>	Hon. Julius Melly, MP On Behalf of L.O.M	
<b>OF</b>	<b>CLERK-AT THE-TABLE:</b>	Benson Inzofu

**THE AUDITOR-GENERAL**

**ON**

**DEVELOPMENT BANK OF KENYA  
LIMITED**

**FOR THE YEAR ENDED  
31 DECEMBER, 2024**

**DEVELOPMENT BANK OF KENYA LIMITED AND SUBSIDIARY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2024**

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## **BOARD OF DIRECTORS**

### **Name**

Michael Nyachae*	Chairman, Non-Executive Director
Barbara Lunani	Non-Executive Director
Sammy Chepkwony*	Non-Executive Director
Jackson Mutua*	Non-Executive Director
Rose Mambo*	Non-Executive Director
Joseph Kiarii	Non-Executive Director
Jackquiline Muga*	Non-Executive Director
Norah Ratemo	Non-Executive Director
Johnson Kiniti	Executive Director

\*Independent Director

## **Registered office**

Finance House  
Loita Street  
P.O. Box 30483 - 00100  
Telephone: (254) 020 340401/2/3  
Email: dbk@devbank.com  
Telegrams: DEVBANK.KE  
Nairobi  
Kenya

## **Subsidiary**

Small Enterprises Finance Company Limited (SEFCO)  
P.O. Box 34045 - 00100  
Telephone: (254) 020 340401/2/3  
Telex: 22662  
Nairobi  
Kenya

## **Shareholders**

**Industrial & Commercial Development Corporation, Star Discover Life Investments Limited,**

P.O Box 45519-00100,  
Nairobi,  
Kenya.

P.O Box 3421-Nyayo Stadium,  
Nairobi,  
Kenya.

**Danmill Enterprises Limited,**

**Suods Logistics Limited,**

P.O Box 266,  
Murang'a,  
Kenya.

P.O Box 71,  
Thika,  
Kenya.

## **Company Secretary**

Yvonne Masinde  
Finance House  
Loita Street  
P.O. Box 30483 - 00100  
Nairobi, GPO  
Kenya

### Senior Officers

Johnson Kiniti	Chief Executive Officer
Yvonne Masinde	Company Secretary
Fredrick Nyasaka	Chief Finance Officer
Olga Sechero	Head of Credit
Jacob Mananda	Head of Corporate
Emily Odiwuor	Head of Business Development and Marketing
Dorcas Namwendwa	Head of Human Resources
Dickson Njuki	Information and Communication Technology Manager
Eddy Anguka	Head of Treasury
Benjamin Kakule	Head of Operations
Obed Terer	Principal Officer, Risk and Compliance
Christopher Lochuria	Head of Internal Audit

### Independent Auditor

BDO East Africa Kenya Certified Public Accountants of Kenya The Westwood, 9 <sup>th</sup> Floor, vale close Off Ring Road, Westlands P.O. Box 10032 - 00100 Nairobi Kenya	<i>On behalf of:</i>	The Auditor-General Kenya National Audit Office Anniversary Towers University Way P.O. Box 30084 - 00100 Nairobi Kenya
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#### Standard Chartered Bank

One Madison Ave, New York, Ny 10010-3603  
Telephone +1 212 6670700,  
United States of America (USA).

#### Standard Chartered Bank

1 Basinghall Avenue, London EC2V 5DD  
Telephone +44 (020) 7885 8888.  
United Kingdom (UK).

#### ODDO BHF Bank

Bockenheimer Landstrasse 10,  
D-6032,  
Frankfurt Am Main – Germany.

#### Standard Chartered Bank

Mahatma Gandhi Road, Mumbai India 400  
Telephone + 91 22 226 70162.

#### FirstRand Bank Limited

3<sup>rd</sup> Merchant Place  
Corner Fredman Drive & Rivonia Road,  
Sandton 2146,  
South Africa.

The Directors are pleased to submit their annual report together with the consolidated and separate financial statements for the year ended 31 December 2024. The report discloses the state of affairs of the Bank and Group.

**1. Principal activities**

Development Bank of Kenya (DBK) is engaged in the business of commercial banking and provision of related services and is licensed under the Banking Act and regulated by the Central Bank of Kenya. The principal activities of the Bank are provision of Corporate, SME and Retail Banking Services.

SEFCO ceased financing any new development projects. It is currently pursuing recovery of existing project loans and advances.

**2. Results**

The results of the Group for the year are set out on pages 18 to 25

**3. Dividend**

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

**4. Directors**

The Directors who served during the year ended 31 December 2024 and up to the date of this report are as set out in page 2.

**5. Going concern**

The Bank continues operating on a Going Concern basis.

**6. Business performance review**

Please see pages 9-12 for a detailed analysis of the above.

**7. Relevant audit information**

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

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

**8. Auditor**

The Auditor- General is responsible for the statutory audit of the consolidated and separate financial statements in accordance with Article 229 of the Constitution of Kenya. Section 23(1) of the Public Audit Act 2015 empowers the Auditor – General to nominate other auditors to carry out an audit on their behalf. BDO East Africa who was appointed by the Auditor General, have carried out the audit for the year ended 31 December 2024.

**9. Indemnity**

The Directors of the Company shall be indemnified out of its assets against all liability incurred by them in which relief is granted to them by the court. This is provided in the best market practice to provide the Directors in undertaking their duties in such capacity.

**10. Approval of financial statements**

The financial statements were approved and authorised for issue at a meeting of the Board of Directors held on 12<sup>th</sup> March 2025.

The directors submit their report together with the audited financial statements for the year ended 31 December 2024.

**By the order of the Board**



**Company Secretary**

## **Chairman's Statement**

### **Introduction**

Dear Shareholders, Customers, and Stakeholders,  
It is with great pleasure that I present to you the financial performance and strategic outlook of our Bank for the period ended 2024. Despite a challenging economic environment, we have continued to demonstrate resilience, agility, and a strong commitment to delivering value to our stakeholders.

### **Economic Overview**

The Kenyan economy recorded a growth rate of 4.6% in 2024, down from 5.6% in 2023. This deceleration was primarily driven by a slowdown across various sectors and muted growth in private sector credit. The financial sector was not spared, as tightening liquidity conditions and an elevated interest rate environment posed challenges. However, through strategic initiatives and prudent financial management, our Bank remained on a positive trajectory.

### **Financial Performance**

Despite economic headwinds, the Group recorded steady financial growth, reflecting our prudent risk management and operational efficiency. Profitability improved, supported by effective interest rate management and strong loan pricing strategies. Total assets grew, driven by increased customer deposits, signalling heightened market confidence in the Bank. Non-performing loan recoveries contributed positively to our financial position, while our lending activities remained focused on supporting clients with essential working capital financing. Our financial stability remains strong, positioning us well for future growth.

### **Strategic Direction and Future Outlook**

Looking ahead, we are committed to strengthening our market position, improving operational efficiencies, and enhancing service delivery. Our focus remains on sustainable growth, expanding accessibility, and leveraging technology to meet evolving customer needs. We aim to enhance our market presence by broadening our range of banking services and optimizing distribution channels. Improving accessibility through a combination of branch expansion and alternative banking solutions will ensure greater convenience for our customers.

Investing in talent remains central to our success, and we will continue to recruit, train, and retain skilled professionals to drive excellence in service delivery. Strengthening our financial position by raising additional capital will enable us to expand operations, increase market competitiveness, and enhance our ability to serve customers effectively. We will take a strategic approach to asset and liability management to ensure sustainable returns and long-term financial stability.

Our commitment to a customer-centric culture remains unwavering as we prioritize service excellence and tailor solutions to meet client needs. Leveraging technology and innovation will be key to our success, with continued enhancements to digital banking capabilities, upgrades to ICT infrastructure, and the integration of innovative financial solutions to streamline operations and improve service efficiency. An increased focus on digitization will enhance banking experiences, simplify transactions, and drive operational efficiency.

### **Conclusion**

As we embark on this next phase of growth, I extend my sincere gratitude to our shareholders, customers, and partners for their continued trust and support. I also commend our management team and employees for their unwavering dedication in steering the Bank forward. We remain confident that with our robust strategy and commitment to innovation, we will achieve even greater milestones in the years ahead. Together, we shall continue to build a stronger, more resilient, and customer-focused bank.

The Group's portfolio of loans and overdrafts by sector is as shown below:

<b>SECTOR</b>	<b>PORTFOLIO 2024</b>	<b>PORTFOLIO 2023</b>
Agriculture	9.26%	11.0%
Manufacturing	21.33%	19.9%
Building & Construction	2.04%	2.0%
Trade	30.45%	28.3%
Tourism, Restaurants, Hotels	2.79%	3.6%
Transport & Communication	3.51%	3.7%
Real Estate	28.13%	28.9%
Financial Services	0.00%	0.0%
Personal Households	2.48%	2.6%
	<b>100.0%</b>	<b>100.0%</b>

**Appreciation**

I take this opportunity to express my sincere gratitude to all our esteemed clients for their continued support and the confidence that they have expressed in our institution. I also wish to thank our shareholders, the staff, and directors for all their efforts during what has been a challenging period and call on them to keep up the spirit.



**Michael Nyachae**  
Chairman

Date: 12<sup>th</sup> March 2025

The Shareholders being the ultimate owners of the Bank appoint a Board of Directors to conduct the business of the Bank on their behalf. The Board is committed to ensuring Sustainability of the Bank and adherence to the best corporate governance practices.

The Board executes its responsibilities through Management and Board Committees that it creates from time to time. The responsibilities for daily operations are delegated to a management team appointed by the Board. A clear segregation of responsibilities between the Board and management is always maintained. The Board makes all policy decisions while management implements the decisions of the Board.

### Board of Directors

The current Board is made up of nine directors inclusive of a non-executive chairman.

### Board and Management Committees

Tabulated below are Board and Management Committees, their composition and membership and functions.

Committee	Members	Main Functions
<b>Board Audit Committee</b>	<b>Jackson Mutua - Chair</b> Jacqueline Muga  <b>Management (by invitation)</b>	Independent oversight of the Bank Financial reporting and internal control systems, checks and balances.
<b>Board Credit Committee</b>	<b>Sammy Chepkwony – Chairperson</b>  Barbara Lunani Johnson Kiniti	Reviewing and overseeing the overall Credit Risk Management in the Bank.
<b>Finance &amp; Risk Management Committee</b>	<b>Barbara Lunani – Chairperson</b>  Joseph Kiarri Johnson Kiniti	Review and oversee the bank's Financial Management and reporting and ensure quality, integrity and reliability of the Bank's Risk Management & Compliance practices.
<b>Governance &amp; Human Resource Committee</b>	<b>Rose Mambo – Chairperson</b>  Sammy Chepkwony Johnson Kiniti	Oversight of Human Capital, Legal & Governance and Data Protection matters of the Bank.
<b>Board Strategy, Business Development &amp; ICT Committee</b>	<b>Joseph Kiarri – Chairperson</b>  Norah Ratemo Rose Mambo Johnson Kiniti	Oversight of the overall Bank Strategy, Policy formulation and Information and Communication Technology (ICT) initiatives.

### Remuneration for Executive & Non-Executive Directors.

The Governance and Human Resources Committee of the Board is responsible for establishing and overseeing the remuneration policy for non-executive directors.

The remuneration structure for non-executive directors comprises monthly fees, sitting allowances, bonuses and Professional indemnity cover to safeguard them in the execution of their duties.

The Executive Director's remuneration is determined through a negotiated contract. The executive director is engaged on a fixed-term contract, which is subject to renewal upon agreement.

**Board attendance.**

Prudential regulations require that every Board member attend a minimum of 75% of all Board meetings. Below is an extract from the attendance register for the Board meetings held in 2024.

<b>Board meeting membership and attendance in 2024</b>					
	<b>12<sup>th</sup> March</b>	<b>9<sup>th</sup> May</b>	<b>5<sup>th</sup> August</b>	<b>8<sup>th</sup> November</b>	<b>9<sup>th</sup> December</b>
Michael Nyachae	√	√	√	√	√
Norah Ratemo	AP	√	AP	√	√
Barbara Lunani	√	√	√	√	√
Sammy Chepkwony	√	√	√	√	√
Jackson Mutua	√	√	√	√	AP
Rose Mambo	√	√	√	√	√
Joseph Kiarri	√	√	√	√	√
Jacqueline Muga	√	√	√	√	√

√ – Attended

AP – Absent with apology.

**Directors Evaluation Report**

It is a requirement that the performance of every Director and the Chairman of the Board be evaluated once every year. The Board Evaluation for the year 2024 was done and the results shall be presented to the CBK by 31<sup>st</sup> March 2025.

**Business review of financial results and activities.**

The Kenyan economy grew at an estimated rate of 4.6% in 2024, compared to 5.6% in 2023. This slowdown was driven by a deceleration across most sectors and a significantly low growth in private sector credit, which remained muted throughout the year.

Despite these challenges, the Group achieved a 73% growth in Profit After Tax (PAT), reaching KES 83.0 million for the period ended 2024, compared to KES 47.9 million in 2023. This growth was primarily driven by the bank’s resilience amid a tough operating environment and specifically, enhanced debt recovery efforts.

The impact of higher interest expenses, which was a major factor in the Banking industry in 2024, was cushioned by the continued implementation of the Risk-Based Loan Pricing Model, which ensured appropriate client pricing. As a result, the Bank’s funded income from loans and securities grew by 27% to KES 1.9 billion, hence an overall positive net interest income.

Operating Income before movement in ECL reduced by 21% to stand at KES 297 million. This was, however, negated by a significant increase in net recoveries from non-performing loans and advances, which rose from KES 113.0 million in 2023 to KES 292.8 million in 2024.

Total assets closed at KES 21.2 billion, reflecting a 13% increase from KES 18.8 billion in the previous year, signaling continued growth momentum. On the funding side, customer deposits surged by 46%, rising from KES 8.2 billion in 2022 to KES 12.1 billion in 2024. This growth indicates strengthened market confidence in the Bank, setting the stage for further expansion.

On the lending front, the net loan portfolio (after provisions) grew marginally by 5%, increasing from KES 10.4 billion in 2023 to KES 10.9 billion in 2024. During this period, the Group focused on supporting clients primarily through working capital financing. While credit growth remained subdued, it outpaced the industry average.

**Potential threats.**

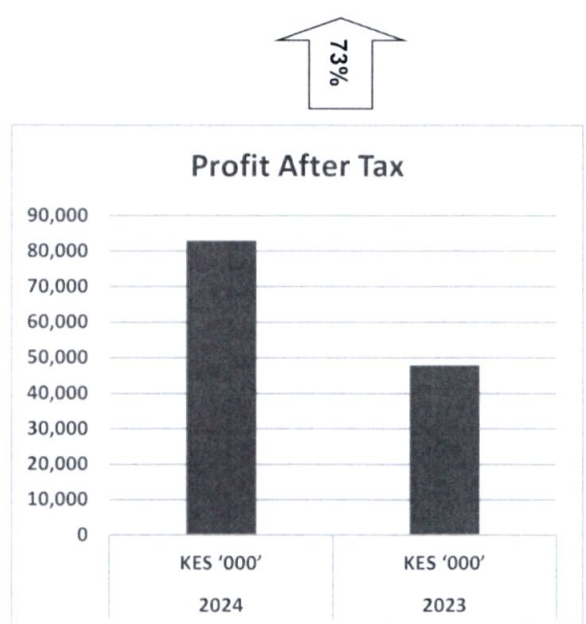
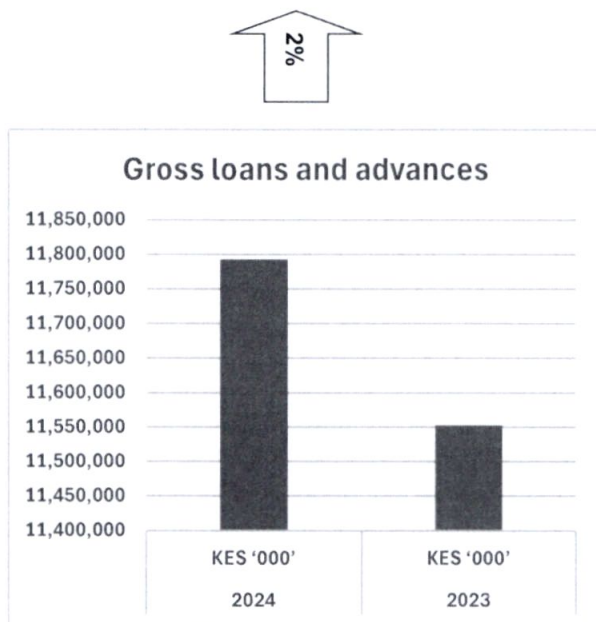
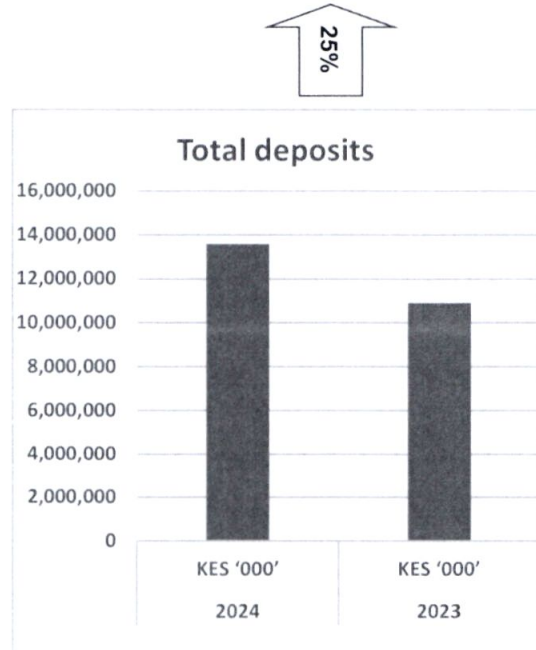
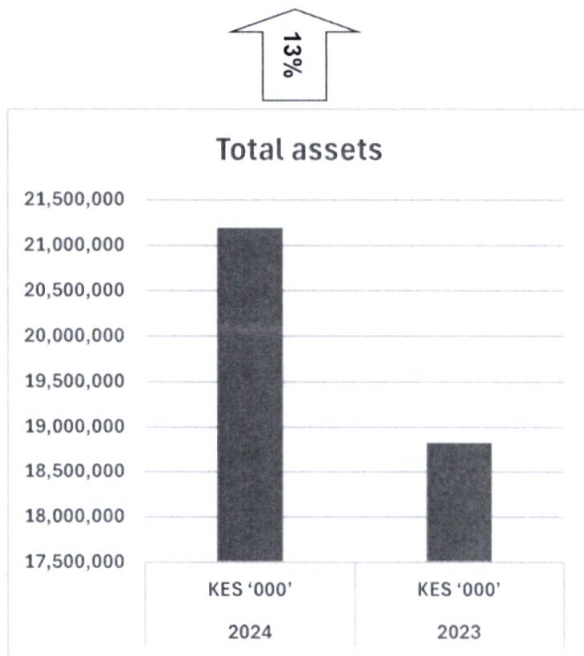
The table below highlights the potential threats the Bank faced in the financial year 2024 and how management was able to resolve them.

Description	Example	Mitigation Measures
<b>Credit Risk</b>		
Failure of an obligor of the bank to repay principal or interest at the stipulated time or otherwise failure of to perform as agreed.	Default on credit facilities	Credit policy framework and governance committees, Risk based loan pricing, pre- and post-disbursement controls, Loan book performance monitoring, set up and review of various risk appetite limits (concentration, currency, country, insider etc) and periodic assurance reviews.
<b>Cyber Risk</b>		
Cyber risk' means any risk of financial loss, disruption, or damage to the reputation of an organisation from some sort of failure of its information technology systems.	Cyber security attacks - Social Engineering, Denial of Service, Phishing, Insider threats	Monitoring of environment through security devices and antivirus solutions. Vulnerability and Penetration testing of the environment, review of IT key risk indicators, Cyber Security Policy and framework, Staff training and awareness. Constitution of committee to review and respond to cyber incidences

		while ensuring elimination of reoccurrence.
<b>Information Risk</b>		
Risk arising from weaknesses in the ICT environment, system availability or data integrity.	System downtime Data leakage and privacy breaches Inadequate vendor support and failure to comply with Bank policies.	Business Continuity in place (System Contingency plans & Disaster Recovery), Encryption, use of secure data exchange channels, Service Level Agreements & Non-disclosure agreements for Vendor management.
<b>Market Risk</b>		
Market risk at DBK includes: Interest rate risk, foreign exchange risk, investment risk, settlement risk and liquidity risk. These risks pose a potential loss of earnings or economic value due to sudden shift in financial and economic factors.	Loss in economic value due to shift in interest rate.	Guiding policies, framework, and governance committees (Assets & liabilities), risk appetite limits set up and monitoring, stress testing and Treasury Back-office operations.
<b>Compliance Risk</b>		
Failure to adhere to legal and regulatory requirements.	Non-adherence to new or changes to existing legislation, regulation, and prudential guidelines.	Regulatory watch. Gap analysis and enhancement of the internal policy environment in line with legal and regulatory requirements.
<b>Reputational Risk</b>		
Potential that negative publicity regarding DBK's business practices, whether true or not, will cause a decline in the customer confidence, costly litigation or revenue reductions. This risk may be due to the failure of the bank to effectively manage all the other risks.	Damage to brand and Negative publicity.	Tone at the top set to demonstrate business integrity and appropriate oversight. Root causes analysis of risks and issues identified and timely resolution. Customer-focused and effective management of customer feedback on various platforms. Building goodwill with customers through continuous engagements. Strong risk management and ethics culture.
<b>Operational risk</b>		
This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Inadequate/insufficient documentation of processes or procedures. Lack of inbuilt system controls Health and safety issues.	Robust operations risk management framework that ensures operational risks are continuously identified and measured through risk mapping, segregation of tasks, periodic risk assessment, key risk indicators, analysis of risk events reported, and corrective action taken.

**Key Performance Indicators.**

The information below highlights the Group's key performance indicators.



A summary of the Group's five-year performance indicators is further highlighted in the summarised 5-year trend analysis below.

	2024 KES '000'	2023 KES '000'	2022 KES '000'	2021 KES '000'	2020 KES '000'
<b>Gross revenue</b>	1,983,872	1,527,688	1,333,184	1,306,513	1,317,916
<b>Profit before tax</b>	72,364	27,960	80,933	66,623	20,541
<b>Profit after tax</b>	83,041	47,921	65,992	53,834	21,830
<b>Gross loans and advances</b>	11,793,276	11,552,579	10,552,724	10,269,940	10,189,074
<b>Less: Expected Credit Losses (ECL)</b>	(849,198)	(1,117,364)	(1,342,727)	(1,438,290)	(1,576,551)
<b>Net loans and advances to customers</b>	10,944,078	10,435,215	9,209,997	8,831,650	8,612,523
<b>Total deposits</b>	13,595,065	10,909,418	9,256,220	8,908,543	8,252,500
<b>Borrowings</b>	3,859,633	3,715,218	3,483,999	4,048,643	4,672,533
<b>Shareholders' equity</b>	3,889,461	3,806,420	3,758,499	3,842,351	3,840,512
<b>Total assets</b>	21,224,402	18,831,425	16,883,484	17,278,398	17,217,431
<b>Key Performance Ratios:</b>					
<b>Basic Earnings Per Share (EPS)</b>	1.59	0.92	1.27	1.04	0.42
<b>Return on Assets (ROA)</b>	0.39	0.25%	0.39%	0.31%	0.13%
<b>Return on Equity (ROE)</b>	2.14	1.26%	1.76%	1.40%	0.57%
<b>Capital Adequacy Ratio</b>	<b>14.1%</b>	<b>18.7%</b>	<b>17.7%</b>	<b>17.3%</b>	<b>19.8%</b>

#### Other performance indicators

With the opening of Mombasa branch in 2024 and the enhancement of business development skills, management aims to drive the growth of Trade Finance through increased off-balance sheet financing. The Bank is actively expanding its technology-driven channels to enhance customer convenience and boost non-funded income. Additionally, plans are underway to open two more branches in Kisumu and Eldoret, further strengthening the Bank's market presence and outreach.

#### Employee factors

Development Bank of Kenya (DBK) has continually invested in employee initiatives to foster a motivated, skilled, and engaged workforce. In the past year, the bank enhanced its talent development programs by offering professional training, leadership development, and upskilling opportunities to ensure employees remain competitive in the evolving financial sector.

Employee wellness has also been a key focus, with the introduction of health and well-being programs, flexible work arrangements, and mental health support services. Additionally, the bank has strengthened its employee recognition initiatives, rewarding high performance through promotions, incentives, and career growth opportunities.

In the current year, DBK has further expanded its employee engagement efforts by enhancing internal communication channels and reinforcing a culture of teamwork and innovation.

Development Bank of Kenya Limited and Subsidiary  
Statement of directors' responsibilities  
For the year ended 31 December 2024

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The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of Development Bank of Kenya Limited (the "Group" and "Company") set out on pages 18 to 84 which comprise the consolidated and bank statements of financial position as at 31 December 2024, and the consolidated and bank statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information, in conformity with International Financial Reporting 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 financial position and the profit or loss of the Group and the Company.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting 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 Group and the Company as at the end of the financial year and of the profit or loss of the Group and the Company for that year. It also requires the Directors to ensure the Company keeps proper accounting records which disclose with reasonable accuracy the financial position and profit or loss of the Group and the Company.

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

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

**Approval of the consolidated and separate financial statements**

The consolidated and separate financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 12<sup>th</sup> March 2025.

  
Barbara Lunani  
Director

  
Jackson Mutua  
Director

Date: 12<sup>th</sup> March 2025

Date: 12<sup>th</sup> March 2025



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## **INDEPENDENT AUDITOR'S REPORT TO THE AUDITOR GENERAL ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

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### **Report on the audit of the Consolidated and Separate Financial Statements**

#### **Opinion**

We have audited the consolidated and separate financial statements of Development Bank of Kenya Limited (the "Company") and its subsidiary (together, the "Group") set out on pages 18 to 84, which comprise the consolidated and separate statements of financial position as at 31 December 2024, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year ended and notes to the financial statements including material accounting policy information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Group and the Company as at 31 December 2024 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with IFRS Accounting Standards, the requirements of the Kenyan Companies Act, 2015.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Authorised auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' international Code of Ethics for Professional Accountants (including international independence standard) (IESBA Code), as applicable to audits of financial statements of public interest entities, together with the ethical requirements that are relevant to audit of the financial statements of public interest entities in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our descriptions of how our audit addressed the matter is provided in that context.

The key Audit Matter	How the matter was Addressed
<p><b>Expected Credit Losses (ECLs) on loans and advances to customers</b></p> <p>The estimation of expected credit losses (“ECLs”) on loans and advances to customers, involves significant judgment and estimates due to the significant uncertainty associated with the assumptions used in the estimation in respect of the timing and measurement of ECLs. We have therefore identified the audit of the ECLs as a key audit matter.</p> <p>The key areas where we identified greater levels of management judgment and assumptions include:</p> <p><b>Significant Increase in Credit Risk (SICR) -</b> Allocation of assets to stage 1, 2, or 3 is dependent on criteria used in identification of SICR which is highly judgmental. Staging of assets determines whether a 12-month or lifetime ECL is assessed and can materially impact the ECLs recognised.</p> <p><b>Forward-looking Information -</b> IFRS 9 requires the Bank to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement applied to determining the macroeconomic information used and the probability weightings applied.</p> <p><b>Model estimations –</b> Inherently judgmental modelling used to estimate ECLs, which involves determining Probabilities of Default (‘PD’), Loss Given Default (‘LGD’), and Exposures at Default (‘EAD’). The PD and LGD models used are the key drivers of the Banks’s ECL results and are therefore most significant judgmental aspect of the Bank’s ECL modelling approach.</p> <p>The disclosures associated with ECLs are set out in the financial statements in notes 4(a) and 19.</p>	<p>Our procedures included, but were not limited to the following:</p> <p>We reviewed the appropriateness of the Bank’s accounting policy and IFRS 9 model governance policy documentations on correct classification of the financial assets.</p> <p>We evaluated the design and operating effectiveness of controls relevant to the Company’s processes over material ECL balances, including the judgments and estimates noted, involving our internal financial risk modelling specialists to assist us in performing our procedures to the extent they were appropriate.</p> <p>We assessed the appropriateness of parameters used in the statistical models in respect of Probability of Default (PDs), Loss Given Default (LGDs), and Exposure at Default (EADs) by considering local economic conditions.</p> <p>We evaluated the criteria used to classify customers to respective stages in accordance with IFRS 9. We reperformed the staging distribution for a sample of assets and assessed the reasonableness of staging applied by management. This included challenging reasonability of Management assumptions on cash flow projections and time to realization for a sample of the facilities.</p> <p>Corroborated the assumptions used for determination of forward-looking information in the model</p> <p>Assessed the adequacy of the disclosures in the Bank’s financial statements on the key judgements and assumptions in accordance with the requirement of IFRS 9.</p>

### Other Information

The directors are responsible for the other information. The other information comprises the information included in the Development Bank of Kenya Limited Annual Report and Financial Statements for the year ended 31 December 2024 as required by the Kenyan Companies Act, 2015. Other information does not include the annual statements and our auditor’s report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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.

### **Responsibility of the Directors for the Consolidated and Separate Financial Statements**

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

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

### **Auditor-General's Responsibility**

The Auditor-General is responsible for reporting on her examination of these annual financial statements to the Cabinet Secretary responsible for the Group for presentation to the National Assembly.

### **Authorised auditor's responsibilities for the audit of the Consolidated and Separate Annual Financial Statements**

Our responsibility is to report and express an opinion on the outcome of our audit of these annual consolidated and separate financial statements to the Auditor-General.

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an authorised 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 International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our authorised auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our authorised auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern; and

Development Bank of Kenya Limited and Subsidiary  
Annual Financial Statements  
For the year ended 31 December 2024

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other legal and regulatory matters as required by the Kenya Companies Act, 2015**

As required by the Kenyan Companies Act, 2015, we report to you based on our audit that the information given in the Report of the directors on page 7 to 12 is consistent with the financial statements.

**BDO East Africa Kenya**  
**Regulated by ICPAK, License number: PF/0015**  
**The Westwood, 9th Floor**  
**Vale Close off Ring Road**  
**Westlands**  
**Nairobi, Kenya**

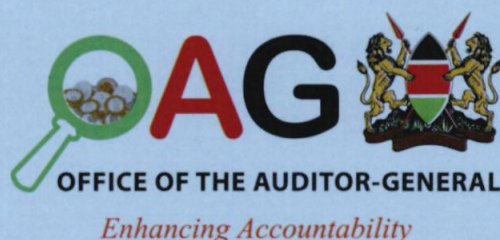
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**Signed on behalf of BDO East Africa Kenya by Kennedy Wandahi**  
**Engagement partner responsible for the independent audit**  
**Practicing certificate number: P/2557**  
**Membership number: 16791**

Date: \_\_\_\_\_/\_\_\_\_\_/ 2025

# REPUBLIC OF KENYA

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HEADQUARTERS  
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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON DEVELOPMENT BANK OF KENYA LIMITED FOR THE YEAR ENDED 31 DECEMBER, 2024**

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### **PREAMBLE**

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure that the Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report aim to address the Auditor-General's statutory roles and responsibilities as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

The accompanying financial statements of Development Bank of Kenya Limited (Group and Bank) set out on pages 18 to 84, which comprise of the consolidated and

bank statements of financial position as at 31 December, 2024, and the consolidated and bank statements of comprehensive income, consolidated and bank statements of changes in equity and the consolidated and bank statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by BDO East Africa – Kenya, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the consolidated and bank financial statements present fairly, in all material respects, the financial position of Development Bank of Kenya Limited as at 31 December, 2024, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Public Finance Management Act, 2012, the Kenya Companies Act, 2015 and the Banking Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Non-Impairment of Investment in Associate**

The consolidated statement of financial position reflects investment balance of Kshs.268,490,000 in associate as disclosed in Note 22 to the financial statements. The investment is in respect to the bank's 43% stake in Fresh Pick Processors making the Company an associate. However, the Company is currently not operational making the realisation of the reported value doubtful. Further, no impairment assessment on the investment was undertaken by the Management to establish the fair value of the Investment.

In the circumstances, the valuation of the investment in associate amounting to Kshs.268,490,000 could not be confirmed.

#### **2. Non-Compliance with International Financial Reporting Standards**

The consolidated statement of financial position reflects financial assets at fair value through other comprehensive income balance of Kshs.456,781,000 as disclosed in Note 20 to the financial statements. The investment balance was in respect to investment in 2,258,017 ordinary shares of Kshs.20 each in Kenya Hotel Properties PLC. However, the valuation of the shares was last undertaken in 2022 and no subsequent valuation has been done. This was in contravention of International Financial Reporting Standards (IFRS 9) on Financial Instruments -Financial Assets at Fair Value through Other Comprehensive Income which require the financial asset to be assessed for impairment at each reporting date.

In the circumstances, the valuation of the investment at fair value through other comprehensive income amounting to Kshs.456,781,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Development Bank of Kenya Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and, in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

The Key Audit Matter	How the matter was addressed
<p><b>Expected Credit Losses (ECLs) on loans and advances to customers</b></p> <p>The estimation of expected ECLs on loans and advances to customers, involves significant judgment and estimates due to the significant uncertainty associated with the assumptions used in the estimation in respect of the timing and measurement of ECLs. I have therefore identified the audit of the ECLs as a key audit matter.</p> <p>The key areas where I identified greater levels of management judgment and assumptions include:</p> <p><b>Significant Increase in Credit Risk (SICR) -</b> Allocation of assets to stage 1, 2, or 3 is dependent on criteria used in identification of SICR which is highly judgmental. Staging of assets determines whether a 12-month or lifetime ECL is assessed and can materially impact the ECLs recognized.</p> <p><b>Forward-looking Information -</b> IFRS 9 requires the bank to measure ECLs on a forward-looking basis reflecting a range of</p>	<p>I reviewed the appropriateness of the bank's accounting policy and IFRS 9 model governance policy documentations on correct classification of the financial assets.</p> <p>I evaluated the design and operating effectiveness of controls relevant to the company's processes over material ECL balances, including the judgments and estimates noted, involving our internal financial risk modelling specialists to assist us in performing our procedures to the extent they were appropriate.</p> <p>Assessing the appropriateness of parameters used in the statistical models in respect of Probability of Default (PDs), Loss Given Default (LGDs), and Exposure at Default (EADs) by considering local economic conditions.</p> <p>I evaluated the criteria used to allocate financial assets to respective stages in accordance</p>

<b>The Key Audit Matter</b>	<b>How the matter was addressed</b>
<p>future economic conditions. Significant management judgement applied to determining the macroeconomic information used and the probability weightings applied.</p> <p><b>Model estimations</b> – Inherently judgmental modelling used to estimate ECLs, which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD'). The PD and LGD models used are the key drivers of the banks' ECL results and are therefore most significant judgmental aspect of the bank's ECL modelling approach.</p>	<p>with IFRS 9. I reperformed the staging distribution for a sample of assets and assessed the reasonableness of staging applied by management. This included challenging reasonability of Management assumptions on cash flow projections and time to realization for a sample of the facilities.</p> <p>Corroborated the assumptions used for determination of forward-looking information in the model</p> <p>Assessed the adequacy of the disclosures in the financial statements on the key judgements and assumptions in accordance with the requirement of IFRS 9.</p>

## Other Matter

### Impending Privatization of the Bank

As part of the Government's plan to steer the turnaround of State Corporations and other State-Owned Enterprises, the Cabinet, in a meeting held on 14 February, 2024, considered and approved the proposed privatization of the bank. However, the Privatization Act, 2023, which formed the legal basis for the bank's privatization, was declared unconstitutional by the High Court on 24 September, 2024 halting the privatization process.

### Other Information

The Directors are responsible for the other information set out on page 2 to 13 which comprise of Report of Directors, Corporate Governance and Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit of Development Bank of Kenya Limited financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Failure to Suspend Non-Performing Interest**

Review of loans records held by the bank revealed that three (3) outstanding customers' loans totalling Kshs.419,100,454 had non-performing interest totalling Kshs.79,254,870. However, the interest had not been suspended contrary to Section 3.6 of the Central Bank of Kenya (CBK) Prudential Guidelines, which states that when a loan is classified as non-performing, an institution should either cease the accrual of interest or continue to accrue interest suspended.

In the circumstances, Management was in breach of the CBK prudential guidelines.

#### **2. Non-Compliance with Core Capital Requirements**

Review of the total loans' portfolio revealed three (3) loan facilities totalling Kshs.1,939,542,640 which individually exceeded the 25% threshold on core capital. This was contrary to Section 3.1 of the CBK Prudential Guidelines which states that an institution shall not grant to any person or permit to be outstanding any advance, credit facility or give any financial guarantee or incur any other liability on behalf of any person, so that the total value of the advances, credit facilities, financial guarantees and there liabilities in respect of that person at any time exceeds 25% of its core capital.

In the circumstances, Management was in breach of the law.

#### **3. Irregular Procurement of Goods and Services**

The bank procured goods worth Kshs.1,071,840 directly without engaging in competitive bidding. In addition, 50% of the amount was paid to the supplier in advance without any security being placed on the funds. This was contrary to Section 91(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that open tendering should be the preferred procurement method for procurement of goods, works and services.

Further, the bank procured goods worth Kshs.319,200 and Kshs.607,300 from two (2) local suppliers totalling Kshs.926,500, beyond the cash purchase threshold of Kshs.50,000 per item per year. This was contrary to Regulation 92 of the Public Procurement and Asset Disposal Regulations, 2020 which requires low value items to

be procured for amounts not exceeding Kshs.50,000 per item per year. In addition, there was no evidence that the items were inspected by an Inspection and Acceptance Committee and a report on the same done to confirm conformity to specifications and requirements.

In the circumstances, Management was in breach of the law.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **1. Failure to Review Loan Valuations**

Review of the collateral register maintained by the bank revealed that some loans lacked updated valuation of the collaterals. As reported previously, it was observed that some of the loan files had not been reviewed for over three (3) years even though the Bank's policy requires an annual review and site visits.

In the circumstances, there is potential credit risk exposure, which may lead to an increase in non-performing loans.

#### **2. Loss of Funds through Unauthorized Access**

Review of internal audit reports indicated that the bank lost Kshs.5,526,100 through unauthorized access to its mobile banking system. Consequently, the on-line banking operations were suspended and the case handed over to the Banking Fraud Investigations Unit. However, no progress report was provided to show the status of the investigation. Further, although the Bank made good the loss to the affected clients, there was no evidence that the bank was compensated by the insurance.

In the circumstances, the effectiveness of the bank's access controls could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively. In all material respects, I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

#### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Bank, so far as appears from the examination of those records; and,
- iii. The Bank's financial statements are in agreement with the accounting records and returns.

#### **Responsibilities of Management and the Board of Directors**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), and for maintaining effective internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk control and overall governance.

In preparing the consolidated financial statements, Management is 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 Management is aware of the intention to cease operations.

Management is also responsible for submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective manner.

The Board of Directors is responsible for overseeing the Bank's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance

and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards for Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs 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.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.

  
FCPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

21 March, 2025

Development Bank of Kenya Limited and Subsidiary  
Annual Financial Statements  
For the year ended 31 December 2024

**Consolidated statement of profit or loss and other comprehensive income**

	Note	2024 <u>KES '000'</u>	2023 <u>KES '000'</u>
Interest income	5	1,910,271	1,507,594
Interest expense	6	<u>(1,687,116)</u>	<u>(1,152,970)</u>
<b>Net interest income</b>		223,155	354,624
Net fees and commission income	7	15,653	17,261
Other operating income	8	57,948	2,833
<b>Operating income</b>		<u>296,756</u>	<u>374,718</u>
Net movement in expected credit losses on financial assets	19	292,793	113,001
Operating expenses	9	<u>(517,185)</u>	<u>(459,759)</u>
<b>Profit before income tax</b>	11	72,364	27,960
Income tax expense	12	<u>10,677</u>	<u>19,961</u>
<b>Profit for the year</b>		83,041	47,921
<b>Other Comprehensive Income</b>			
Other Comprehensive Income for the year net of tax		-	-
<b>Total comprehensive income</b>		<u><b>83,041</b></u>	<u><b>47,921</b></u>
Earnings per share (KES per share)	15	<u><b>1.59</b></u>	<u><b>0.92</b></u>

The notes set out on pages **26 to 84** form an integral part of these financial statements.

Development Bank of Kenya Limited and Subsidiary  
Annual Financial Statements  
For the year ended 31 December 2024

**Bank statement of profit or loss and other comprehensive income**

	Note	2024 KES '000'	2023 KES '000'
Interest income	5	1,908,036	1,505,359
Interest expense	6	(1,687,676)	(1,153,528)
<b>Net interest income</b>		220,360	351,831
Net fees and commission income	7	15,653	17,261
Other operating income	8	57,948	2,833
<b>Operating income</b>		293,961	371,925
Net movement in expected credit losses on financial assets	19	292,728	111,701
Operating expenses	9	(516,281)	(458,534)
<b>Profit before income tax</b>	11	70,408	25,092
Income tax expense	12	11,263	20,821
<b>Profit for the year</b>		81,671	45,913
<b>Other Comprehensive Income</b>			
Other Comprehensive Income for the year net of tax		-	-
<b>Total comprehensive income</b>		<b>81,671</b>	<b>45,913</b>
Earnings per share (KES per share)	15	<b>1.57</b>	<b>0.88</b>

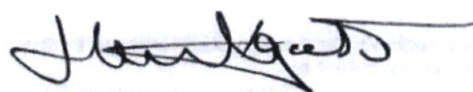
The notes set out on pages 26 to 84 form an integral part of these financial statements.

Development Bank of Kenya Limited and Subsidiary  
Financial statements  
For the year 31 December 2024

**Consolidated statement of financial position**

	Note	2024 KES '000'	2023 KES '000'
<b>ASSETS</b>			
Cash and balances with Central Bank of Kenya	16	910,447	716,403
Financial assets at fair value through profit or loss	17	531,178	184,960
Financial assets at amortised cost	17	4,236,539	3,595,624
Balances due from banking institutions	18	3,261,158	2,645,265
Loans and advances to customers	19	10,944,078	10,435,215
Financial assets at fair value through other comprehensive income	20	456,781	456,781
Investments in associates	22	268,490	268,490
Tax recoverable	23	63,340	47,478
Other assets	24	157,424	104,179
Deferred income tax assets	25	124,980	129,366
Right of use assets	26	109,193	109,347
Intangible assets	26	17,910	48,802
Property and equipment	26	142,884	89,515
<b>TOTAL ASSETS</b>		<b>21,224,402</b>	<b>18,831,425</b>
<b>LIABILITIES</b>			
Deposits and balances due to banking institutions	27	1,541,544	2,660,638
Customer deposits	28	12,053,521	8,248,780
Borrowings	29	3,306,008	3,715,218
Lease liabilities	33(b)	157,492	151,892
Other liabilities	30	276,376	248,477
		<b>17,334,941</b>	<b>15,025,005</b>
<b>EQUITY</b>			
Share capital	31	1,042,500	1,042,500
Retained earnings		1,122,722	1,257,287
Statutory reserves	37 (a)	1,331,013	1,113,407
Other reserves	37 (b)	393,226	393,226
Total Equity Attributable to Shareholders		<b>3,889,461</b>	<b>3,806,420</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>21,224,402</b>	<b>18,831,425</b>

The financial statements set out on pages 18 to 84 were approved and authorized for issue by the Board of Directors on **12<sup>th</sup> March 2025** and were signed on its behalf by:



Johnson Kiniti  
Director



Jackson Mutua  
Director

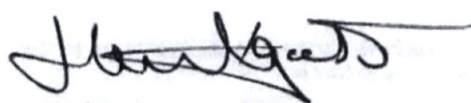
The notes set out on pages **26 to 84** form an integral part of these financial statements.

Development Bank of Kenya Limited and Subsidiary  
 Financial statements  
 For the year 31 December 2024

**Bank statement of financial position**

ASSETS	Note	2024	2023
		KES '000'	KES '000'
Cash and balances with Central Bank of Kenya	16	910,447	716,403
Financial assets at fair value through profit or loss	17	531,178	184,960
Financial assets at amortised cost	17	4,215,557	3,574,626
Balances due from banking institutions	18	3,261,158	2,645,265
Loans and advances to customers	19	10,944,078	10,435,215
Financial assets at fair value through other comprehensive income	20	456,781	456,781
Investment in Associates	22	268,490	268,490
Tax Recoverable	23	61,268	45,589
Investment in subsidiary	21	32,048	32,048
Other Assets	24	157,424	104,179
Deferred income tax assets	25	124,679	129,095
Right of use asset	26	109,193	109,347
Intangible Assets	26	17,910	48,802
Property and equipment	26	142,884	89,515
<b>TOTAL ASSETS</b>		<b>21,233,095</b>	<b>18,840,315</b>
<b>LIABILITIES</b>			
Deposits and balances due to banking institutions	27	1,541,544	2,660,638
Customers deposits	28	12,088,415	8,282,172
Borrowings	29	3,306,008	3,715,218
Lease liabilities	33(b)	157,492	151,892
Other liabilities	30	274,276	246,706
		<b>17,367,735</b>	<b>15,056,626</b>
<b>EQUITY</b>			
Share capital	31	1,042,500	1,042,500
Retained earnings		1,098,621	1,234,556
Statutory reserves	37 (a)	1,331,013	1,113,407
Other reserves	37 (b)	393,226	393,226
Total Equity Attributable to Shareholders		<b>3,865,360</b>	<b>3,783,689</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>21,233,095</b>	<b>18,840,315</b>

The financial statements set out on pages 18 to 84 were approved and authorized for issue by the Board of Directors on 12<sup>th</sup> March 2025 and were signed on its behalf by:



Johnson Kiniti  
 Director



Jackson Mutua  
 Director

The notes set out on pages **26 to 84** form an integral part of these financial statements.

**Consolidated statement of changes in equity**

	Share capital KES '000'	Statutory reserves KES '000'	Other reserves KES '000'	Retained earnings KES '000'	Total KES '000'
<b>2024</b>					
<b>At 1 January 2024</b>	<b>1,042,500</b>	<b>1,113,407</b>	<b>393,226</b>	<b>1,257,287</b>	<b>3,806,420</b>
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	83,041	83,041
Transfer to statutory reserves	-	217,606	-	(217,606)	-
<b>Other comprehensive income for the year</b>					
Change in fair value	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>217,606</b>	<b>-</b>	<b>(134,564)</b>	<b>83,041</b>
<b>At 31 December 2024</b>	<b>1,042,500</b>	<b>1,331,013</b>	<b>393,226</b>	<b>1,122,722</b>	<b>3,889,461</b>
<b>2023</b>					
<b>At 1 January 2023</b>	<b>1,042,500</b>	<b>1,120,596</b>	<b>393,226</b>	<b>1,202,177</b>	<b>3,758,499</b>
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	47,921	47,921
Transfer to statutory reserves	-	(7,189)	-	7,189	-
<b>Other comprehensive income for the year</b>					
Change in fair value	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(7,189)</b>	<b>-</b>	<b>55,110</b>	<b>47,921</b>
<b>At 31 December 2023</b>	<b>1,042,500</b>	<b>1,113,407</b>	<b>393,226</b>	<b>1,257,287</b>	<b>3,806,420</b>

The notes set out on pages 26 to 84 form an integral part of these financial statements.

Development Bank of Kenya Limited and Subsidiary  
Annual Financial statements  
For the year ended 31 December 2024

**Bank statement of changes in equity**

	Share capital KES '000'	Statutory reserves KES '000'	Other reserves KES '000'	Retained earnings KES '000'	Total KES '000'
<b>2024</b>					
<b>At 1 January 2024</b>	<b>1,042,500</b>	<b>1,113,407</b>	<b>393,226</b>	<b>1,234,556</b>	<b>3,783,689</b>
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	81,671	81,671
Transfer to statutory reserves	-	217,606	-	(217,606)	-
<b>Other comprehensive income for the year</b>					
Changes in fair value	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>217,606</b>	<b>-</b>	<b>(135,935)</b>	<b>81,671</b>
<b>At 31 December 2024</b>	<b>1,042,500</b>	<b>1,331,013</b>	<b>393,226</b>	<b>1,098,621</b>	<b>3,865,360</b>
<b>2023</b>					
<b>At 1 January 2023</b>	<b>1,042,500</b>	<b>1,120,596</b>	<b>393,226</b>	<b>1,181,454</b>	<b>3,737,776</b>
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	45,913	45,913
Transfer to statutory reserves	-	(7,189)	-	7,189	-
<b>Other comprehensive income for the year</b>					
Changes in fair value	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(7,189)</b>	<b>-</b>	<b>53,102</b>	<b>45,913</b>
<b>At 31 December 2023</b>	<b>1,042,500</b>	<b>1,113,407</b>	<b>393,226</b>	<b>1,234,556</b>	<b>3,783,689</b>

The notes set out on pages **26 to 84** form an integral part of these financial statements.

**Consolidated statement of cash flows**

	Note	2024 KES '000'	2023 KES '000'
<b>Operating activities</b>			
Profit before taxation		72,364	27,960
Depreciation	26	70,290	61,035
Addition lease liability	33	-	16,939
Interest charged on borrowings	6	36,909	38,771
Addition right of use	33	(16,579)	(16,939)
		<b>179,563</b>	<b>127,276</b>
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>			
Changes in operating assets and liabilities			
Loans and advances to customers	19	(508,863)	(1,225,218)
Deposits held for regulatory purposes	16	(156,334)	(44,608)
Investments in treasury bonds	17	(987,133)	(106,848)
Balances due from banking institutions longer than 90 days	18	75,610	108,702
Other assets	24	(53,243)	(58,630)
Deposits due to banking institutions	27	(1,348,964)	1,416,217
Customer's deposits	28	3,804,741	1,016,492
Other liabilities (net of lease liabilities)	30	27,900	7,499
Cash generated from operations		1,032,277	1,113,607
Income tax paid		(799)	1,240,882
		<b>1,032,478</b>	<b>1,240,882</b>
<b>Net cash generated from operations</b>			
<b>Cash flows used in investing activities</b>			
Purchase of property and equipment	26	(76,034)	(76,706)
		<b>(76,034)</b>	<b>(76,706)</b>
<b>Net cash used in investing activities</b>			
<b>Cash flows used in financing activities</b>			
Interest paid on Financing Activities	6	(19,260)	(38,771)
Lease principal payments	33 (b)	(28,629)	(8,993)
Loans (repaid) / received	29	(409,210)	231,219
		<b>(457,099)</b>	<b>183,455</b>
<b>Net cash used in /generated from financing activities</b>			
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents balances as at start of year		499,345	1,347,631
		1,621,392	273,761
		<b>2,120,737</b>	<b>1,621,392</b>
<b>Cash and cash equivalents at end of year</b>			

The notes set out on pages 26 to 84 form an integral part of these financial statements.

**Bank statement of cash flows**

		<b>2024</b>	<b>2023</b>
	<b>Note</b>	<b>KES '000'</b>	<b>KES '000'</b>
<b>Operating activities</b>			
Profit before taxation		70,408	25,092
Depreciation	26	70,290	61,035
Addition lease liability	33	16,579	16,939
Interest charged on borrowings	6	36,909	38,771
Addition right of use	33	<u>(16,579)</u>	<u>(16,939)</u>
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>177,607</b>	<b>124,898</b>
Changes in operating assets and liabilities			
Loans and advances to customers	19	(508,863)	(1,225,218)
Deposits held for regulatory purposes	16	(156,334)	(44,608)
Investments in treasury bonds	17	(987,149)	(106,833)
Balances due from banking institutions longer than 90 days	18	75,610	108,672
Other assets	24	(53,243)	(58,630)
Deposits due to banking institutions	27	(1,348,963)	1,416,217
Customer's deposits	28	3,806,243	1,019,313
Other liabilities	30	<u>27,570</u>	<u>7,071</u>
Income tax paid		1,032,475	-
		<u>-</u>	<u>1,113,607</u>
<b>Net cash generated from operations</b>		<b>1,032,475</b>	<b>1,240,882</b>
<b>Cash flows used in investing activities</b>			
Purchase of property and equipment	26	(76,034)	(76,706)
<b>Net cash used in investing activities</b>	26	<u>(76,034)</u>	<u>(76,706)</u>
<b>Cash flows used in financing activities</b>			
Interest paid on loan capital	6	(19,260)	(38,771)
Lease principal payments	33 (b)	(28,629)	(8,993)
Loans repaid	29	(409,210)	231,219
<b>Net cash used in financing activities</b>		<u>(457,099)</u>	<u>183,455</u>
<b>Net increase in cash and cash equivalents</b>		<b>499,345</b>	<b>1,347,631</b>
Cash and cash equivalents as at start of year		1,621,392	273,761
<b>Cash and cash equivalents at end of year</b>	32	<u><b>2,120,737</b></u>	<u><b>1,621,392</b></u>

The notes set out on pages **26 to 84** form an integral part of these financial statements.

## Notes to the financial statements (continued)

### 1. General information

Development Bank of Kenya Limited (the "Group", "Bank" or the "Company") is incorporated as a limited company in Kenya under the Kenyan Companies Act 2015 and is domiciled in Kenya. The address of its registered office is as follows:

Finance House  
Loita Street  
P.O. Box 30483, 00100  
Nairobi.

### 2. Basis of Preparation

The annual financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and the requirements of the Kenyan Companies Act, 2015.

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

#### Functional and presentation currency

The consolidated and separate financial statements are prepared in millions of Kenya Shillings (KES 'million), the functional currency of the Group. All amounts have been rounded to the nearest thousand (KES' 000) except when otherwise indicated.

### 3. Summary of material accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Changes in accounting policies and disclosures

##### (i) New Standards and Interpretations

#### Standards and interpretations effective and adopted in the current year

In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

#### Supplier finance arrangements - amendments to IAS 7 and IFRS 7

The amendment applies to circumstances where supplier finance arrangements exist. These are arrangements whereby finance providers pay the suppliers of the entity, thus providing the entity with extended payment terms or the suppliers with early payment terms. The entity then pays the finance providers based on their specific terms and conditions.

The amendment requires the disclosure of information about supplier finance arrangements that enable users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows as well as on the entity's exposure to liquidity risk.

The effective date of the amendment is for years beginning on or after 1st January 2024. The Bank has adopted the amendment for the first time in the 2024 financial

## Notes to the financial statements (continued)

statements.

The impact of the amendment is not material.

### **Non-current liabilities with covenants - amendments to IAS 1**

The amendment applies to the classification of liabilities with loan covenants as current or non-current. If an entity has the right to defer settlement of a liability for at least twelve months after the reporting period, but subject to conditions, then the timing of the required conditions impacts whether the entity has a right to defer settlement.

If the conditions must be complied with at or before the reporting date, then they affect whether the rights to defer settlement exists at reporting date.

However, if the entity is only required to comply with the conditions after the reporting period, then the conditions do not affect whether the right to defer settlement exists at reporting date. If an entity classifies a liability as non-current when the conditions are only required to be met after the reporting period, then additional disclosures are required to enable the users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period.

The effective date of the amendment is for years beginning on or after 1st January 2024.

The Bank has adopted the amendment for the first time in the 2024 financial statements.

The impact of the amendment is not material.

### **Lease liability in a sale and leaseback - Amendments to IFRS 1**

The amendment requires that a seller-lessee in a sale and leaseback transaction, shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

The effective date of the amendment is for years beginning on or after 01 January 2024. The company has adopted the amendment for the first time in the 2024 financial statements.

The impact of the amendment is not material.

## **(ii) Standards and interpretations not yet effective**

### **New accounting standards in issue but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements which are relevant to the Group are discussed below.

The Group intends to adopt these standards, if applicable, when they become effective.

These standards are not expected to have a material impact on the Group's financial statements.

## Notes to the financial statements (continued)

### Lack of Exchangeability (Amendment to IAS 21)

The Amendments arose as a result of difficulty in determination of the exchange rate when there is a long-term lack of exchangeability. IAS 21, prior to the Amendments, did not include explicit requirements for the determination of the exchange rate when a currency is not exchangeable into another currency, which led to diversity in practice.

The Amendments introduce requirements to assess when a currency is exchangeable into another currency and when it is not. The Amendments require an entity to estimate the spot exchange rate when it concludes that a currency is not exchangeable into another currency.

The effective date of the amendment is for years beginning on or after January 1, 2025.

### Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)

The amendment clarifies that financial assets and financial liabilities are recognized and derecognized at settlement date except for regular way purchases or sales of financial assets and financial liabilities meeting conditions for new exception.

The new exception permits companies to elect to derecognize certain financial liabilities settled via electronic payment systems earlier than the settlement date.

They also provide guidelines to assess contractual cash flow characteristics of financial assets, which apply to all contingent cash flows, including those arising from environmental, social, and governance (ESG)-linked features.

The effective date of the amendment is for years beginning on or after January 1, 2026.

### Annual Improvements to IFRS Accounting Standards – Volume 11

Annual improvements are limited to changes that either clarify the wording in an IFRS Accounting Standard, or correct relatively minor unintended consequences, oversights or conflicts between requirements of the Accounting Standards. The proposed improvements are packaged together in one document.

This cycle of annual improvements addresses the following: Hedge Accounting by a First-time Adopter (Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards), Disclosure of Deferred Difference between Fair Value and Transaction Price (Amendments to Guidance on implementing IFRS 7), Gain or Loss on derecognition (Amendments to IFRS 7), Introduction and Credit Risk Disclosures (Amendments to Guidance on implementing IFRS 7), Derecognition of Lease Liabilities (Amendments to IFRS 9), Transaction Price (Amendments to IFRS 9), Determination of 'De Facto Agent' (Amendments to IFRS 10) and Cost Method (Amendments to IAS 7).

The effective date of the amendment is for years beginning on or after January 1, 2026.

### Contracts Referencing Nature Dependent Electricity (previously Power Purchase Agreements) (Amendments to IFRS 9 and IFRS 7)

The amendment addresses the application of 'own use' and hedge accounting requirements for agreements which meet specified criteria. If a PPA qualifies for the 'own use' exemption, it is accounted for as an executory contract rather than as a derivative. In contrast, if a PPA does not qualify for the 'own use' exemption, it is accounted for as

## Notes to the financial statements (continued)

a derivative to which hedge accounting considerations may apply. The amendments apply to contracts that reference electricity generated from nature dependent sources and for which cash flows vary based on the amount of electricity generated by a reference production facility. New disclosures have also been introduced.

The effective date of the amendment is for years beginning on or after January 1, 2026.

### IFRS 18 Presentation and Disclosure in Financial Statements

IFRS 18 replaces IAS 1, which sets out presentation and base disclosure requirements for financial statements. The changes, which mostly affect the income statement, include the requirement to classify income and expenses into three new categories – operating, investing and financing – and present subtotals for operating profit or loss and profit or loss before financing and income taxes.

Further, operating expenses are presented directly on the face of the income statement – classified either by nature (e.g. employee compensation), by function (e.g. cost of sales) or using a mixed presentation. Expenses presented by function require more detailed disclosures about their nature.

IFRS 18 also provides enhanced guidance for aggregation and disaggregation of information in the financial statements, introduces new disclosure requirements for management-defined performance measures (MPMs)\* and eliminates classification options for interest and dividends in the statement of cash flows.

The effective date of the amendment is for years beginning on or after January 1, 2027.

### IFRS 19 Subsidiaries without Public Accountability: Disclosures

IFRS 19 is a voluntary standard that applies to entities without public accountability, but whose parents prepare consolidated financial statements under IFRS Accounting Standards.

For in-scope companies, IFRS 19 simplifies disclosures on various topics, including leases, exchange rates, income taxes, statement of cash flows, etc.

If elected, IFRS 19 is expected to reduce the cost of preparing in-scope financial statements while maintaining the usefulness of those financial statements for stakeholders

The effective date of the amendment is for years beginning on or after January 1, 2027.

#### (b) Consolidation principles

The consolidated financial statements include the financial statements of Development Bank of Kenya Limited (DBK) and its wholly owned subsidiary company, Small Enterprises Finance Company Limited (SEFCO), which is controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company balances and transactions have been eliminated on consolidation (KES '000').

#### (c) Investments in associates

The bank's investment in Freshpick Processors (EPZ) at 43% is accounted for in the consolidated financial statements using the equity method. The investment was initially recorded at cost and subsequently adjusted to reflect the share of the net assets of the investment.

**Notes to the financial statements (continued)**

**(d) Foreign currency translation**

**(i) Functional and Presentation Currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which entity operates ('the Functional Currency'). The consolidated financial statements are presented in Kenya shillings, which is the Group's functional currency. All financial information presented in these consolidated financial statements has been rounded off to the nearest thousand Kenya shillings.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

**(e) Revenue recognition**

Income is recognised on an accrual basis.

**(i) Interest income**

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for Purchased or originated credit impaired ('POCI') financial assets and financial assets that are not "POCI" but have subsequently become credit impaired. For Purchased or originated credit-impaired ('POCI') financial assets the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset (i.e. its amortised cost before any credit impairment losses). The calculation does not consider expected credit losses and includes transaction costs, and fees that are integral to the effective interest rate, such as origination fees.

## Notes to the financial statements (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset. For 'POCI' financial assets if any — assets that are credit-impaired at initial recognition — the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

### (ii) **Fees and commission income**

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

Other fees and commission income, including account servicing fees, investments are recognised as the related services are performed.

### (iii) **Dividend income**

Dividend income is recognised once the right to receive the dividends has been established.

## (f) **Financial assets**

### (i) **Measurement methods**

*Amortised cost and effective interest rate*

#### (i) **Measurement methods**

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

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

#### **Initial recognition and measurement**

Financial assets are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets differs from the transaction price on initial recognition, the Group recognises the difference as follows:

## Notes to the financial statements (continued)

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

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

### (ii) *Classification and subsequent measurement*

From 1 January 2018, the Group applied IFRS 9 and classifies its financial assets in the following measurement categories:

- a) Fair value through profit or loss (FVPL);
- b) Fair value through other comprehensive income (FVOCI); or
- c) Amortized cost.

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

#### **Debt instruments**

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

Classification and subsequent measurement of debt instruments depend on:

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

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

*Amortised cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described under the expected credit loss measurement section. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Financial assets classified in this category include treasury bills and treasury bonds purchased from the secondary market; loans and advances to banks and customers with fixed or determinate payment that are not quoted in active market.

*Fair value through other comprehensive income (FVOCI):* Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in Net Investment income'. Interest income from these

## Notes to the financial statements (continued)

financial assets is included in 'Interest income' using the effective interest rate method.

*Fair value through profit or loss:* Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Financial instruments reclassified in this category are those that the Group holds principally for the purpose of short-term profit taking. These comprise mainly certain Treasury bonds.

*Business model:* the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a Group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the period.

### Equity instruments

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

The Group has designated at FVOCI investments in a small portfolio of equity securities. The Group chose this presentation alternative because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term. There was no dividend recognised during the period nor transfers of the cumulative gain within equity.

## Notes to the financial statements (continued)

### (iii) *Impairment*

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and with the exposure arising from loan commitments and non-financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date.

The measurement of ECL reflects:

- (a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (b) The time value of money; and
- (c) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

### (iv) *Modification of loans*

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

- (a) If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- (b) Whether any substantial new terms are introduced substantially affects the risk profile of the loan.
- (c) Significant extension of the loan term when the borrower is not in financial difficulty.
- (d) Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

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

## Notes to the financial statements (continued)

### 2. Summary of significant accounting policies (Continued)

#### (f) Financial assets (continued)

##### (v) *Derecognition other than on a modification*

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

#### (g) Leases

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

The Group recognizes a right-of-use asset and a lease liability from the date of initial application of IFRS 16 or at the lease commencement date for contracts after the date of initial application. 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.

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 re-measurements 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, and the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. The Bank determines the incremental borrowing rate as the rate of external borrowing that would be applicable to access funding to acquire the right-of-use assets.

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

- 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.

The lease liability is measured at amortised cost using the effective profit rate 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 an extension or termination option or if there is a revised in-substance fixed lease payment.

## Notes to the financial statements (continued)

### 2. Summary of significant accounting policies (continued)

#### (g) Leases (continued)

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 in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

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

The 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.

#### (h) Property and equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

• Furniture and equipment	8 years
• Computers	3 years
• Motor vehicles	4 years
• Leasehold improvements	6 years
• Right of Use Assets	Lease term
• Work in progress	Not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the income statement.

## Notes to the financial statements (continued)

### 2. Summary of significant accounting policies (continued)

#### (i) Income tax

##### (i) Current income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

##### (ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### (j) Employee benefits

##### (i) Post-employment benefits

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

Obligations for contributions to the defined contribution plan are recognised as an expense in profit or loss as incurred. Any difference between the charge to profit or loss income and the contributions payable is recorded in the statement of financial position under other assets or liabilities.

##### (ii) Leave

All employees are entitled to such leave as is determined by the Bank from time to time. All annual leave must be taken in the year it is earned subject to a maximum of 15 days carried forward. The bank does not compensate staff leave days carried forward in excess of 15 days unless sanctioned and supported by the head of department.

Leave days not taken within policy are accrued for at the individual staff salary scale.

## Notes to the financial statements (continued)

### 2. Summary of material accounting policies (continued)

#### (k) Cash and cash equivalents.

For the purpose of presentation of the cash flows in the financial statements the cash and cash equivalents include cash and balances with Central Bank of Kenya net of cash ratio reserve, net balances from banking institutions, uncleared effects and investment in government securities with a maturity of three months or less from the date of acquisition.

#### (l) Dividends

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity.

#### (m) Provisions

Provisions are recognised when the Bank/Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

#### (n) Non-financial guarantee contracts, letters of credit, performance bonds and loan commitments

Letters of credit, acceptances, guarantees and performance bonds, which are credit-related instruments, are generally given by the Group to support performance by a customer to third parties. Non-financial guarantees are those issued by the Group to a client to guarantee full and due performance of a contractor according to plans and specifications in a contract. If the contractor fails to perform under the contract, the Group will compensate the customer for losses incurred as a result and will then recoup the amount paid from the contractor.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment that can be settled net in cash or by delivering or issuing another financial instrument. For loan commitments, the loss allowance is recognised as a provision.

### 3. Critical accounting estimates and judgements

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

Estimates and underlying assumptions are continuously reviewed on an ongoing basis are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognised prospectively.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year.

## Notes to the financial statements (continued)

### 3. Critical accounting estimates and judgements (continued)

#### (a) Measurement of the expected credit allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and Fair Value through Other Comprehensive Income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Loss (ECL) is further detailed in Note 4(a), which also sets out key sensitivities of the ECL to changes in these elements.

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

- (i) Determining criteria for significant increase in credit risk;
- (ii) Choosing appropriate models and assumptions for the measurement of ECL;
- (iii) Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- (iv) Establishing Groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 4(a).

#### (b) Income taxes

The Group/Bank is subject to income taxes in Kenya. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

#### (c) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value, with changes in fair value either reported within the statement of comprehensive income or within other comprehensive income until the instrument is sold or becomes impaired. Details of the type and classification of the Group's financial instruments are set out in Note 4 and the accounting policy set out in Note 2 to the financial statements.

## Notes to the financial statements (continued)

### 3. Critical accounting estimates and judgements (continued)

#### (c) Fair value of financial instruments (continued)

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters.

Equity investments that do not have an observable market price are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

#### (d) Financial risk management

##### Introduction and overview

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

- (i) Credit risk,
- (ii) Liquidity risk; and
- (iii) Market risks, comprising of interest rate risk, currency risk and price risk.

##### Group's risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability (ALCO), Credit and Risk and Debt collection committees, which are responsible for developing and monitoring the Group's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the main Board on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group, 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 Group Board Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Board Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

## Notes to the financial statements (continued)

### (a) Credit risk.

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from interbank, customer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees and letters of credit.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure. Further, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

### Management of credit risk

Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The Board of Directors has delegated responsibility for the management of credit risk to its Board Credit Committee. The Board Credit Committee is responsible for oversight of the Group's credit risk, including:

- (i) 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;
- (ii) Establishing the authorization structure for the approval and renewal of credit facilities;
- (iii) Reviewing and assessing credit risk. Group credit 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;
- (iv) Limiting concentrations of exposure to counterparties and industries for loans and advances;
- (v) Developing and maintaining the Group's risk grading in order to categories 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 five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Group Risk;
- (vi) Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group Credit on the credit quality of local portfolios and appropriate corrective action is taken; and
- (vii) Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk. Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee.

## Notes to the financial statements (continued)

### 4. Financial risk management (continued)

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

##### Management of credit risk (continued)

###### **Credit risk measurement.**

###### *Loans and advances (including loan commitments and guarantees)*

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

###### **Credit risk grading.**

The Group uses credit risk grading that reflect its assessment of the probability of default and specific characteristics of individual counterparties. Various qualitative and quantitative factors such as the facility arrears status, facility restructures as well as specific industry risk assessment are considered. In addition, the credit grading enable expert judgement from the credit risk team to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

###### **Expected credit loss measurement.**

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') is identified since initial recognition, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. A description of inputs, assumptions and estimation techniques used in measuring the ECL is provided in this note.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

###### **Significant increase in credit risk (SICR)**

The Group considers a financial instrument to have experienced a significant increase in credit risk based on its assessment of both quantitative factors and qualitative factors or when the backstop criteria have been met.

## Notes to the financial statements (continued)

*Quantitative criteria:* This considers the facilities arrears status and considers whether expected contractual payments are 30 days past due.

*Qualitative criteria:* This considers whether the facility has been restructured due to cash flow difficulties experienced by the customer as well as an assessment of perceived risk of the industry in which the facility falls in. Further the Group assesses the perceived risk of the obligor in assessment of financial instrument to have experienced a significant increase in credit risk.

The assessment of SICR incorporates forward-looking information. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team. A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Group has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2023.

### *Definition of default and credit-impaired assets:*

The Group defines a financial instrument as in default when the borrower is more than 90 days past due on its contractual payments. The definition has been used consistently across all ECL inputs i.e. PD, EAD and LGD. The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

### *Measuring ECL — Explanation of inputs, assumptions and estimation techniques:*

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type of claim and availability of collateral or other credit support. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the approximation of the original effective interest rate.

## Notes to the financial statements (continued)

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type. The Group has based on the entity's historical experience, determined the time to realization. Forced sale values of the land and non-land collateral are also used in the determination of the LGD. In some cases, the Group determines the forced sale value assumption taking into account factors such as the most recent revaluation reports on the collateral, the perceived risk of the client whose assets are secured by a negative pledges, any other claims on collateral in instances where the Bank's claim ranks pari passu to that of other lenders and the exposure of all of a client's facilities where a single client has multiple facilities secured by the same collateral.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. The assumptions underlying the ECL calculation such as how the maturity profile of the PDs and how collateral values change etc. are monitored and on an ongoing basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

The Group reviews all inputs, assumptions and estimation techniques applied in measuring the ECL to assess any changes and appropriateness on an annual basis. Consideration is made to changes in the business, changes in the economy, changes in the factors affecting the PD, LGD, EAD and other inputs. Such changes are expected to be very infrequent. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period. Unless significant changes are identified, the Group expects to update the PDs, LGD and any other significant assumptions after every 3 years.

### *Forward-looking information incorporated in the ECL models*

The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. Following this assessment, the Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has established that the chosen scenarios are appropriately representative of the range of possible scenarios.

Grouping of instruments for losses measured on a collective basis.

For expected credit loss provisions modelled on a collective basis, a Grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a Group are homogeneous. In performing this Grouping, there must be sufficient information for the Group to be statistically credible. The appropriateness of Groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

### *Maximum exposure to credit risk — Financial instruments subject to impairment.*

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of

**Notes to the financial statements (continued)**

financial assets below also represents the Group's maximum exposure to credit risk on these assets.

**Notes to the financial statements (continued)**

**4. Financial risk management (continued)**

**(a) Credit risk (continued)**

The following table contains an analysis of the credit risk exposure (credit quality analysis) of financial instruments for which an ECL allowance is recognised.

The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

Group	Stage 1	Stage 2	Stage 3	31-Dec-24	31-Dec-23
	KES '000'	KES '000'	KES '000'	Total KES '000'	Total KES '000'
Cash and balances with Central Bank of Kenya	910,447			910,447	716,403
Financial assets at fair value through profit or loss	531,178			531,178	184,960
Financial assets at fair value through other comprehensive income	4,236,539			4,236,539	3,595,624
Deposits and balances due from banking institutions	3,261,158			3,261,158	2,645,265
Loans and advances to customers	7,579,040	1,652,964	2,561,272	11,793,276	11,522,579
Undrawn loan commitments	157,339			157,339	413,254
Other financial assets	-			-	-
Letters of credit and guarantees	588,167			588,167	594,777
<b>Gross carrying amount</b>	<b>17,263,868</b>	<b>1,652,964</b>	<b>2,561,272</b>	<b>21,478,104</b>	<b>19,672,862</b>
Expected credit losses on financial assets	(256,824)	(52,653)	(539,721)	(849,198)	(1,117,364)
<b>Net carrying amount</b>	<b>17,007,044</b>	<b>1,600,311</b>	<b>2,021,551</b>	<b>20,628,906</b>	<b>18,555,498</b>

**Notes to the financial statements (continued)**

**4. Financial risk management (continued)**

**(a) Credit risk (continued)**

Bank	31-Dec-24			Total KES '000'	31-Dec-23
	Stage 1 KES '000'	Stage 2 KES '000'	Stage 3 KES '000'		Total KES '000'
Cash and balances with central Bank of Kenya	910,447			910,447	716,403
Financial assets at fair value through profit or loss	531,178			531,178	184,960
Financial assets at fair value through other comprehensive income	4,215,557			4,215,557	3,574,626
Deposits and balances due from banking institutions	3,261,158			3,261,158	2,645,265
Loans and advances to customers	7,579,040	1,652,964	2,508,184	11,740,188	11,499,491
Undrawn loan commitments	157,339			157,339	413,254
Other financial assets	-	-	-	-	-
Letters of credit and guarantees	588,167			588,167	594,777
<b>Gross carrying amount</b>	<b>17,242,886</b>	<b>1,652,964</b>	<b>2,508,184</b>	<b>21,404,034</b>	<b>19,628,776</b>
Expected credit losses on financial assets	(256,824)	(52,653)	(486,633)	(796,110)	(1,064,276)
<b>Net carrying amount</b>	<b>16,986,062</b>	<b>1,600,311</b>	<b>2,021,551</b>	<b>20,607,924</b>	<b>18,564,500</b>

**Notes to the financial statements (continued)**

**4. Financial risk management (continued)**

**(a) Credit risk (continued)**

The movement in the expected credit losses for debt securities at amortised cost during the year was as follows (see Note 19 for the movement for the year ended 31 December 2024):

Group	31-Dec-24			Total KES '000'
	Stage 1 12-month ECL KES '000'	Stage 2 Lifetime ECL KES '000'	Stage 3 Lifetime ECL KES '000'	
<b>Loans and advances at amortised cost</b>				
<b>Balances at 1 January</b>	<b>237,001</b>	<b>125,776</b>	<b>754,587</b>	<b>1,117,364</b>
Transfer to Stage 1 (12-month ECL)	(1,238)			(1,238)
Transfer to Stage 2 (lifetime ECL not credit loss)	(14,575)	(23,410)		(37,985)
Transfer to Stage 3 (lifetime ECL credit loss)	(34,145)	(10,398)	(77,543)	(122,086)
Net remeasurement of ECL	11,598	(19,973)	(142,361)	(150,736)
New financial assets originated or purchased	62,098	-	2,311	64,409
Financial assets derecognised	(258)	(2,379)	(17,893)	(20,530)
Write offs	-	-	-	-
Recoveries from write offs	-	-	-	-
Foreign Exchange Adjustments	-	-	-	-
<b>Balance at 31 December</b>	<b>260,481</b>	<b>69,616</b>	<b>519,101</b>	<b>849,198</b>
<b>Bank</b>				
<b>Loans and advances at amortised cost</b>				
<b>Balances at 1 January</b>	<b>237,001</b>	<b>108,814</b>	<b>718,461</b>	<b>1,064,276</b>
Transfer to Stage 1 (12-month ECL)	(1,238)			(1,238)
Transfer to Stage 2 (lifetime ECL not credit loss)	(14,575)	(23,410)		(37,985)
Transfer to Stage 3 (lifetime ECL credit loss)	(34,145)	(10,398)	(77,543)	(122,086)
Net remeasurement of ECL	11,598	(19,973)	(142,361)	(150,736)
New financial assets originated or purchased	62,098	-	2,311	64,409
Financial assets derecognised	(258)	(2,379)	(17,893)	(20,530)
Write offs	-	-	-	-
Recoveries from write offs	-	-	-	-
<b>Balance at 31 December</b>	<b>260,481</b>	<b>52,654</b>	<b>482,975</b>	<b>796,110</b>

**Notes to the financial statements (continued)**

**4. Financial risk management (Continued)**

The movement in the expected credit losses for debt securities at amortised cost during the year was as follows (see Note 19 for the movement for the year ended 31 December 2023):

Group	31-Dec-23			Total KES '000'
	Stage 1 12-month ECL KES '000'	Stage 2 Lifetime ECL KES '000'	Stage 3 Lifetime ECL KES '000'	
<b>Loans and advances at amortised cost</b>				
<b>Balances at 1 January</b>	<b>165,328</b>	<b>155,266</b>	<b>1,022,133</b>	<b>1,342,727</b>
Transfer to Stage 1 (12-month ECL)	(35,558)	33,770	1,788	-
Transfer to Stage 2 (lifetime ECL not credit loss)	11,338	(16,367)	5,029	-
Transfer to Stage 3 (lifetime ECL credit loss)	498	1,484	(1,982)	-
Net remeasurement of ECL	84,834	(46,704)	(170,493)	<b>(132,363)</b>
New financial assets originated or purchased	12,838	5,562	2,602	<b>21,001</b>
Financial assets derecognised	(2,276)	(7,236)	(15,682)	<b>(25,194)</b>
Write offs	-	-	(86,003)	<b>(86,003)</b>
Recoveries from write offs	-	-	(2 804)	<b>(2,804)</b>
Foreign Exchange Adjustments	-	-	-	-
<b>Balance at 31 December</b>	<b>237,002</b>	<b>125,775</b>	<b>754,588</b>	<b>1,117,364</b>
<b>Bank</b>				
<b>Loans and advances at amortised cost</b>				
<b>Balances at 1 January</b>	<b>165,328</b>	<b>138,304</b>	<b>983,203</b>	<b>1,286,835</b>
Transfer to Stage 1 (12-month ECL)	(35,558)	33,770	1,788	-
Transfer to Stage 2 (lifetime ECL not credit loss)	11,338	(16,367)	5,029	-
Transfer to Stage 3 (lifetime ECL credit loss)	498	1,484	(1,982)	-
Net remeasurement of ECL	84,834	(46,704)	(170,493)	<b>(132,363)</b>
New financial assets originated or purchased	12,838	5,562	2,602	<b>21,001</b>
Financial assets derecognised	(2,276)	(7,236)	(15,682)	<b>(25,194)</b>
Write offs	-	-	(86,003)	<b>(86,003)</b>
Recoveries from write offs	-	-	-	-
<b>Balance at 31 December</b>	<b>237,002</b>	<b>108,813</b>	<b>718,462</b>	<b>1,064,276</b>

**Notes to the financial statements (continued)**

**4. Financial risk management (continued)**

**(a) Credit risk (continued)**

*Collateral and other credit enhancements*

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured. Collateral is usually not held against investment securities, and no such collateral was held at 31 December 2023.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period. The Group closely monitors collateral held for financial assets, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

The Group closely monitors collateral held for financial assets, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses.

Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

<b>Loans and advances to customers</b>		<b>At 31 December 2024</b>			<b>Fair value of collateral held</b>
		<b>Gross exposure</b>	<b>Expected credit loss</b>	<b>Carrying amount</b>	
<b>Group</b>	<b>KES '000'</b>	<b>KES '000'</b>	<b>KES '000'</b>	<b>KES '000'</b>	<b>KES '000'</b>
<b>Carrying amount</b>	<b>11,793,276</b>	<b>849,198</b>	<b>10,944,078</b>	<b>17,580,507</b>	
<b>Bank</b>		<b>Gross exposure</b>	<b>Expected credit loss</b>	<b>Carrying amount</b>	<b>Fair value of collateral held</b>
		<b>KES '000'</b>	<b>KES '000'</b>	<b>KES '000'</b>	
<b>Carrying amount</b>	<b>11,740,188</b>	<b>796,110</b>	<b>10,944,078</b>	<b>17,580,507</b>	

**Notes to the financial statements (continued)**

Loans and advances to customers		At 31 December 2023			Fair value of collateral held KES '000'
		Gross exposure KES '000'	Expected credit losses KES '000'	Carrying amount KES '000'	
<b>Group</b>					
<b>Carrying amount</b>	<b>11,552,579</b>	<b>1,117,364</b>	<b>10,435,215</b>		<b>17,953,063</b>
<b>Bank</b>					
<b>Carrying amount</b>	<b>11,499,491</b>	<b>1,064,276</b>	<b>10,435,215</b>		<b>17,953,063</b>

*Expected credit loss*

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in PDs, Exposure At Default (EADs) and Loss Given Default (LGDs) in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

**Write-off policy**

The Group writes off a loan balance (and any related allowances for expected credit losses) when Group Credit determines that the loans are uncollectible. This is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

*Collateral and other credit enhancements - continued*

*Modification of financial assets*

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Loans with renegotiated terms are loans that have been restructured due to deterioration

**Notes to the financial statements (continued)**

in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

Such restructuring activities include extended payment term arrangements. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

*Concentration by Sector*

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

<b>Concentration by Sector</b>	<b>2024</b> <b>KES '000'</b>	<b>2023</b> <b>KES '000'</b>
Agriculture	1,092,016	1,266,316
Manufacturing	2,515,667	2,336,017
Building and construction	240,766	228,618
Trade	3,591,368	3,256,028
Tourism, restaurants, and hotels	329,218	414,672
Transport and communication	413,383	424,680
Real estate	3,317,998	3,328,881
Financial services	2	-
Personal households	292,858	297,367
	<b><u>11,793,276</u></b>	<b><u>11,522,579</u></b>

**Notes to the financial statements (continued)**

**4. Financial risk management (continued)**

**(a) Credit risk (continued)**

**Exposure to credit risk**

	2024		2023	
	Group KES '000'	Bank KES '000'	Group KES '000'	Bank KES '000'
Balances with Central Bank of Kenya	910,447	910,447	716,403	716,403
Deposits and balances due from banking institutions	3,261,158	3,261,158	2,645,265	2,645,265
Loans and advances	10,944,078	10,944,078	10,435,215	10,435,215
Financial assets at fair value through profit or loss	531,178	531,178	184,860	184,860
Financial assets at amortised cost	4,236,539	4,215,557	3,595,624	3,574,626
Other assets	157,424	157,424	104,179	104,179
Financial assets at fair value through OCI	456,781	456,781	456,781	456,781
	<b>20,497,605</b>	<b>20,476,623</b>	<b>18,138,327</b>	<b>18,117,329</b>

**(b) Liquidity risk**

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

**Management of liquidity risk**

The Group strives 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 Group's reputation.

Treasury receives information from other departments of the bank regarding cash requirements and integrates this information in form of projected cash flows. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the bank as a whole.

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 ALCO. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

**Notes to the financial statements (continued)**

**4. Financial risk management (Continued)**

**(b) Liquidity risk (continued)**

**Exposure to liquidity risk**

The key measure used by the Group 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 investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	<b>2024</b>	<b>2023</b>
At 31 December	35.00%	21.5%
Average for the period	24.95%	21.9%
Maximum for the period	35.00%	25.0%
Minimum for the period	20.10%	20.4%

**Notes to the financial statements (continued)**

**4. Financial risk management (Continued)**

**(b) Liquidity risk (continued)**

The table below analyses the Banks's financial liabilities that will be settled on a net basis into relevant maturity Groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual cash flows:

Group	0 to 1 month KES '000'	1 to 3 months KES '000'	3 to 12 months KES '000'	1 to 5 years KES '000'	Over 5 years KES '000'	Total KES '000'
<b>At 31 December 2024</b>						
<b>Liabilities</b>						
Due to banking institutions	445,900	1,028,394	67,250	-	-	1,541,544
Customer deposits	1,616,463	4,803,666	4,272,559	1,359,833	1,000	12,053,521
Borrowings	17,766	2,989,409	57,204	241,629	-	3,306,008
Lease liabilities.	30,157	30,157	30,157	30,157	36,864	157,492
Other liabilities	55,275	55,275	55,275	55,275	55,277	276,377
<b>Total liabilities</b>	<b>2,165,561</b>	<b>8,906,901</b>	<b>4,482,445</b>	<b>1,686,894</b>	<b>93,141</b>	<b>17,334,942</b>
<b>At 31 December 2023</b>						
<b>Liabilities</b>						
Due to banking institutions	-	1,244,422	1,318,672	97,545	-	2,660,639
Customer deposits	213,655	7,342,932	464,190	208,003	20,000	8,248,780
Borrowings	17,766	3,344,241	40,555	243,771	68,885	3,715,218
Lease liabilities	28,758	28,758	28,758	28,758	36,860	151,892
Other liabilities	38,456	76,908	76,908	38,454	17,751	248,477
<b>Total liabilities</b>	<b>298,635</b>	<b>12,037,261</b>	<b>1,929,083</b>	<b>616,531</b>	<b>143,496</b>	<b>15,025,006</b>



**Notes to the financial statements (continued)**

**4. Financial risk management (continued)**

**(b) Liquidity risk (continued)**

**Group**

**At 31 December 2024**

	0 to 1 month KES '000'	1 to 3 months KES '000'	3 to 12 months KES '000'	1 to 5 years KES '000'	Over 5 years KES '000'	Total KES '000'
<b>Assets</b>						
Cash and balances with Central Bank of Kenya	405,719	-	-	-	504,728	910,447
Financial assets at fair value through Profit & Loss	-	-	-	-	531,178	531,178
Financial assets at amortised cost	-	549,944	460,676	672,854	2,553,065	4,236,539
Due from other banks	93,776	3,095,532	71,850	-	-	3,261,158
Loans and advances to customers	3,305,594	905,415	2,090,852	868,704	3,773,513	10,944,078
Financial assets at fair value through Other Comprehensive Income	-	-	-	-	456,781	456,781
Other assets	31,487	31,487	31,487	31,487	31,476	157,424
<b>Total assets</b>	<b>3,836,576</b>	<b>4,582,378</b>	<b>2,654,865</b>	<b>1,573,045</b>	<b>7,850,741</b>	<b>20,497,605</b>

**At 31 December 2023**

**Assets**

Cash and balances with Central Bank of Kenya	368,009	-	-	-	348,394	716,403
Financial assets at fair value through Profit & Loss	-	-	-	-	184,960	184,960
Financial assets at amortised cost	474,218	-	-	1,024,220	2,097,186	3,595,624
Due from other banks	966,376	1,531,429	147,460	-	-	2,645,265
Loans and advances to customers	1,998,540	631,989	1,791,996	1,278,474	4,734,216	10,435,215
Financial assets at fair value through Other Comprehensive Income	-	-	-	-	456,781	456,781
Other assets	39,530	19,765	19,765	19,765	5,354	104,179
<b>Total assets</b>	<b>3,846,673</b>	<b>2,183,183</b>	<b>1,959,221</b>	<b>2,322,459</b>	<b>7,826,891</b>	<b>18,138,427</b>

**Notes to the financial statements (continued)**

**4. Financial risk management (continued)**

**(c) Market risk**

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group'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.

**Management of market risks**

Overall authority for market risk is vested in ALCO. The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Group is primarily exposed to interest rate risk and foreign exchange risk.

**(i) Interest rate risk**

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

At 31 December 2024 if interest rates were to increase or decrease by 1.0%, with other variables held constant, the impact on after tax profit or loss / equity would have been as shown below. This analysis is performed on the same basis for 2023.

	<b>2024</b> <b>KES'000</b>	<b>2023</b> <b>KES'000</b>
+ 1% movement	(40,937)	(55,460)
- 1% movement	40,937	55,460

**Notes to the financial statements (continued)**

**4. Financial risk management (Continued)**

**(c) Market risk (continued)**

**(i) Interest rate risk – continued**

The table below summarises the exposure to interest rate risks. Included in the table below are the Bank's assets and liabilities for 2023 at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

**Group**

<b>At 31 December 2024</b>	<b>Effective interest rate</b>	<b>0 to 3 months KES '000'</b>	<b>3 to 12 months KES '000'</b>	<b>1 to 5 years KES '000'</b>	<b>Over 5 years KES '000'</b>	<b>Non- interest bearing KES '000'</b>	<b>Total KES '000'</b>
<b>Assets</b>							
Cash and balances with Central Bank of Kenya	<b>0.00</b>	-	-	-	-	910,447	910,447
Investment in Government Securities	<b>12.86%</b>	549,944	460,676	672,854	3,084,243	-	4,767,717
Due from banking institutions	<b>8.76%</b>	3,189,312	71,850	-	-	-	3,261,162
Loans and advances to customers	<b>15.60%</b>	4,211,009	2,090,852	868,704	3,773,513	-	10,944,078
Other assets	<b>0%</b>	-	-	-	-	157,424	157,423
<b>Total assets</b>		<b>7,950,265</b>	<b>2,623,378</b>	<b>1,541,558</b>	<b>6,857,756</b>	<b>1,067,871</b>	<b>20,040,828</b>
<b>Liabilities</b>							
Due to banking institutions	<b>0.00%</b>	1,474,294	67,250	-	-	-	1,541,544
Customers' deposits	<b>12.37%</b>	6,447,020	4,272,559	1,333,942	-	-	12,053,521
Right of Use Liabilities	<b>13.00%</b>	40,010	40,010	77,472	-	-	157,492
Borrowings	<b>10.63%</b>	3,007,175	57,204	241,629	-	-	3,306,008
Other liabilities	<b>0%</b>	-	-	-	-	276,376	276,376
<b>Total liabilities</b>		<b>10,968,499</b>	<b>4,437,023</b>	<b>1,653,043</b>	<b>-</b>	<b>276,376</b>	<b>17,334,941</b>

**Notes to the financial statements (continued)**

**4. Financial risk management (Continued)**

**(c) Market risk (continued)**

**(i) Interest rate risk (continued)**

The table below summarises the exposure to interest rate risks. Included in the table below are the Bank's assets and liabilities for 2023 at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

Group	Effective interest rate	0 to 3 months KES '000'	3 to 12 months KES '000'	1 to 5 years KES '000'	Over 5 years KES '000'	Non-interest bearing KES '000'	Total KES '000'
<b>At 31 December 2023</b>							
<b>Assets</b>							
Cash and balances with Central Bank of Kenya	0%	-	-	-	-	716,403	716,403
Investment in Government Securities	11.95%	474,218	-	1,024,220	2,097,186	-	3,595,624
Due from banking institutions	4.40%	2,497,805	147,460	-	-	-	2,645,265
Loans and advances to customers	12.63%	2,630,528	1,791,996	1,278,474	4,734,217	-	10,435,215
Other assets	0%	-	-	-	-	104,179	104,179
<b>Total assets</b>		<b>5,602,551</b>	<b>1,939,456</b>	<b>2,302,694</b>	<b>6,831,403</b>	<b>820,582</b>	<b>17,496,686</b>
<b>Liabilities</b>							
Due to banking institutions	1.51%	1,244,422	1,318,672	97,545	-	-	2,660,639
Customers' deposits	11.35%	7,556,587	464,190	208,003	20,000	-	8,248,780
Right of Use Liabilities	13.00%	37,973	37,973	37,973	37,973	-	151,892
Borrowings	11.7%	3,362,007	40,555	243,771	68,885	-	3,715,218
Other liabilities	0%	-	-	-	-	248,477	248,477
<b>Total liabilities</b>		<b>12,200,989</b>	<b>1,861,390</b>	<b>587,292</b>	<b>126,858</b>	<b>248,477</b>	<b>15,025,006</b>



**Notes to the financial statements (continued)**

**4. Financial risk management (continued)**

**(c) Market risk (continued)**

**(i) Interest rate risk – continued**

The table below summarises the exposure to interest rate risks. Included in the table below are the Bank's assets and liabilities for 2023 at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

**Bank**

	<b>Effective interest rate</b>	<b>0 to 3 months KES '000'</b>	<b>3 to 12 months KES '000'</b>	<b>1 to 5 years KES '000'</b>	<b>Over 5 years KES '000'</b>	<b>Non-interest bearing KES '000'</b>	<b>Total KES '000'</b>
<b>Assets</b>							
Cash and balances with Central Bank of Kenya	<b>0.00</b>	-	-	-	-	910,447	910,447
Investment in Government Securities	<b>12.86%</b>	549,944	460,676	672,854	3,063,261	-	4,746,735
Due from banking institutions	<b>8.76</b>	3,189,308	71,850	-	-	-	3,261,158
Loans and advances to customers	<b>15.60%</b>	4,211,009	2,090,852	868,704	3,773,513	-	10,944,078
Other assets	<b>0%</b>	-	-	-	-	157,424	157,424
<b>Total assets</b>		<b>7,950,261</b>	<b>2,623,378</b>	<b>1,541,558</b>	<b>6,836,774</b>	<b>1,067,871</b>	<b>20,019,842</b>
<b>Liabilities</b>							
Due to banking institutions	<b>0.00%</b>	1,474,294	67,250	-	-	-	1,541,544
Customers' deposits	<b>12.37%</b>	6,447,020	4,272,559	1,368,836	-	-	12,088,415
Right of Use Liabilities	<b>13.00%</b>	39,373	39,373	39,373	39,373	-	157,492
Borrowings	<b>10.63%</b>	3,007,175	57,204	241,629	-	-	3,306,008
Other liabilities	<b>0%</b>	-	-	-	-	247,276	247,276
<b>Total liabilities</b>		<b>10,967,862</b>	<b>4,436,386</b>	<b>1,649,838</b>	<b>39,373</b>	<b>247,276</b>	<b>17,340,735</b>

**Notes to the financial statements (continued)**

**4. Financial risk management (continued)**

**(c) Market risk (continued)**

**(i) Interest rate risk (continued)**

The table below summarises the exposure to interest rate risks. Included in the table below are the Bank's assets and liabilities for 2023 at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

<b>Bank</b>	<b>Effective interest rate</b>	<b>0 to 3 months KES '000'</b>	<b>3 to 12 months KES '000'</b>	<b>1 to 5 years KES '000'</b>	<b>Over 5 years KES '000'</b>	<b>Non- interest bearing KES '000'</b>	<b>Total KES '000'</b>
<b>Assets</b>							
Cash and balances with Central Bank of Kenya	0%	-	-	-	-	716,403	716,403
Investment in Government Securities	11.95%	474,218	-	1,024,220	2,097,186	-	3,595,624
Due from banking institutions	4.40%	2,497,805	147,460	-	-	-	2,645,265
Loans and advances to customers	12.63%	2,630,528	1,791,996	1,278,474	4,734,217	-	10,435,215
Other assets	0%	-	-	-	-	104,179	104,179
<b>Total assets</b>		<b>5,602,551</b>	<b>1,939,456</b>	<b>2,302,694</b>	<b>6,831,403</b>	<b>820,583</b>	<b>17,496,686</b>
<b>Liabilities</b>							
Due to banking institutions	1.51%	1,244,422	1,318,672	97,545	-	-	2,660,639
Customers' deposits	11.35%	7,556,587	464,190	208,003	20,000	-	8,248,780
Right of Use Liabilities	13.00%	37,973	37,973	37,973	37,973	-	151,892
Borrowings	11.7%	3,362,007	40,555	243,771	68,885	-	3,715,218
Other liabilities	0%	-	-	-	-	247,706	247,706
<b>Total liabilities</b>		<b>12,200,989</b>	<b>1,861,390</b>	<b>587,292</b>	<b>126,858</b>	<b>247,706</b>	<b>15,024,235</b>





**Notes to the financial statements (continued)**

**4. Financial risk management (continued)**

**(c) Market risk (continued)**

**(ii) Currency risk**

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The table below analyses the currencies to which the Group and the Bank are exposed at 31 December 2024:

<b>At 31 December 2024</b>	<b>USD KES '000'</b>	<b>GBP KES '000'</b>	<b>Euro KES '000'</b>	<b>Other KES '000'</b>	<b>Total KES '000'</b>
<b>Assets</b>					
Cash and balances with Central Bank of Kenya	332,241	3,861	26,391	384	<b>362,877</b>
Loans and advances to customers	212,380	-	998,275	-	<b>1,210,655</b>
Other assets	1,013,005	-	458,505	-	<b>1,471,510</b>
<b>Total foreign currency assets</b>	<b>1,557,626</b>	<b>3,861</b>	<b>1,483,171</b>	<b>384</b>	<b>3,045,042</b>
<b>Liabilities</b>					
Deposit and balance due to customers	1,288,352	-	-	5	<b>1,288,357</b>
Other liabilities	205,178	1,407	1,469,535	-	<b>1,676,120</b>
<b>Total foreign currency liabilities</b>	<b>1,493,530</b>	<b>1,407</b>	<b>1,469,535</b>	<b>5</b>	<b>2,964,477</b>
<b>Foreign currency exposure at 31 December 2024</b>	<b>64,096</b>	<b>2,454</b>	<b>13,636</b>	<b>379</b>	<b>80,565</b>

**Notes to the financial statements (continued)**

**4. Financial risk management (continued)**

4.

**(c) Market risk (continued)**

**(ii) Currency risk – continued**

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The table below analyses the currencies to which the Group and the Bank are exposed at 31 December 2023:

<b>At 31 December 2023</b>	<b>USD KES '000'</b>	<b>GBP KES '000'</b>	<b>Euro KES '000'</b>	<b>Other KES '000'</b>	<b>Total KES '000'</b>
<b>Assets</b>					
Cash and balances with Central Bank of Kenya	206,182	4,647	62,686	7,452	<b>280,967</b>
Loans and advances to customers	326,830	-	1,445,532	-	<b>1,772,362</b>
Other assets	721,763	-	302,718	-	<b>1,024,481</b>
<b>Total foreign currency assets</b>	<b>1,254,775</b>	<b>4,647</b>	<b>1,810,936</b>	<b>7,452</b>	<b>3,077,810</b>
<b>Liabilities</b>					
Deposit and balance due to customers	571,824	-	-	5,195	<b>577,019</b>
Other liabilities	92,911	1,308	66,446	-	<b>160,665</b>
<b>Total foreign currency liabilities</b>	<b>664,735</b>	<b>1,308</b>	<b>66,446</b>	<b>5,195</b>	<b>737,684</b>
<b>Foreign currency exposure at 31 December 2023</b>	<b>590,040</b>	<b>3,339</b>	<b>1,744,490</b>	<b>2,257</b>	<b>2,340,126</b>

**Notes to the financial statements (continued)**

**4. Financial risk management (continued)**

**(d) Capital management**

The Central Bank of Kenya sets and monitors capital requirements for the Group as a whole.

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

The bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective expected credit losses and the element of the fair value reserve relating to unrealised gains on equity instruments classified as financial assets through OCI.

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

The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period.

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

	<b>2024</b>	<b>2023</b>
	<b>KES '000'</b>	<b>KES '000'</b>
<b>Core capital (Tier 1)</b>		
Paid up share capital	1,042,500	1,042,500
Retained earnings	1,098,621	1,234,556
Other reserves	280	281
	<u>2,141,401</u>	<u>2,277,337</u>
<b>Core capital</b>	<b>2,141,401</b>	<b>2,277,337</b>
Minimum statutory capital	<u>1,000,000</u>	<u>1,000,000</u>
<b>Excess capital</b>	<b>1,141,401</b>	<b>1,277,337</b>
Supplementary capital (Tier 2)	<u>282,181</u>	<u>250,061</u>
<b>Total capital</b>	<b>2,423,582</b>	<b>2,527,398</b>
<b>Total risk weighted assets</b>	<b>14,715,558</b>	<b>12,145,943</b>

**Notes to the financial statements (continued)**

**4. Financial risk management (continued)**

**(d) Capital management (continued)**

**Capital adequacy ratios.**

	2024	2023
Percentage of Core Capital to Risk Weighted Asset ratio	14.60%	18.70%
Minimum requirement.	10.50%	10.50%
Percentage of Total Capital to Risk Weighted Asset ratio	16.50%	20.80%
Minimum requirement.	14.50%	14.50%
Percentage of Core Capital to Deposits ratio	17.70%	27.40%
Minimum requirement.	8.00%	8.00%

**(e) Fair value measurement**

**Fair value hierarchy**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 – fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – fair value measurements are derived from inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

As at 31 December 2024	Level 1 KES '000'	Level 2 KES '000'	Level 3 KES'000'	Total KES '000'
<b>Assets</b>				
Fair value through profit or loss	-	531,178	-	531,178
Fair value through other comprehensive income	-	-	456,781	456,781
Loans and advances	-	-	10,944,078	10,944,078
<b>Total assets</b>	<b>-</b>	<b>531,178</b>	<b>11,400,859</b>	<b>11,932,037</b>
<b>As at 31 December 2023</b>				
<b>Assets</b>				
Fair value through profit or loss	-	184,960	-	184,960
Fair value through other comprehensive income	-	-	456,781	456,781
Loans and advances	-	-	10,435,215	10,435,215
<b>Total assets</b>	<b>-</b>	<b>184,960</b>	<b>10,891,996</b>	<b>11,076,956</b>

**Notes to the financial statements (continued)**

**(e) Fair value measurement (continued)**

**Financial instruments in level 2**

The fair value of these financial assets is determined by using valuation techniques which maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. Specifically, the directors have used the discounted cash flow technique using quoted yields for the same or similar products.

**5. Interest income**

**Group**

	<b>2024</b>	<b>2023</b>
	<b>KES '000'</b>	<b>KES '000'</b>
Loans and advances to customers	814,541	498,189
Overdrafts	450,531	470,782
Financial assets at fair value through profit or loss	38,880	61,738
Financial assets at amortised cost	454,668	374,835
Deposits and balances due from banking institutions	151,651	102,050
	<u><b>1,910,271</b></u>	<u><b>1,507,594</b></u>

**Bank**

Loans and advances to customers	814,541	498,189
Overdrafts	450,531	470,782
Financial assets at fair value through profit or loss	38,880	61,738
Financial assets at amortised cost	452,433	372,600
Deposits and balances due from banking institutions	151,651	102,050
	<u><b>1,908,036</b></u>	<u><b>1,505,359</b></u>

Included within interest income on investment securities for the year ended 31 December 2024 is KES 458,837,756 (2023: KES 435,606,000) relating to debt securities held at amortised cost.

**6. Interest expense**

**Group**

	<b>2024</b>	<b>2023</b>
	<b>KES '000'</b>	<b>KES '000'</b>
Customer deposits	1,207,547	783,529
Deposits and balances due to banking institutions	442,660	330,670
Borrowings	36,909	38,771
	<u><b>1,687,116</b></u>	<u><b>1,152,970</b></u>

**Notes to the financial statements (continued)**

**6. Interest expense (continued)**

<b>Bank</b>	<b>2024</b> <b>KES '000'</b>	<b>2023</b> <b>KES '000'</b>
Customer deposits	1,208,107	784,087
Deposits and balances due to banking institutions	442,660	330,670
Borrowings	36,909	38,771
	<b>1,687,676</b>	<b>1,153,528</b>

**7. Net fees and commissions income**

**Group and Bank**

Commissions on loans and advances	10,424	8,167
Other fees	5,229	9,094
	<b>15,653</b>	<b>17,261</b>

**8. Other operating income**

**Group**

**Other operating income**

Gains arising from dealing in foreign currencies	12,435	2,647
Other income	45,513	186
	<b>57,948</b>	<b>2,833</b>

**Bank**

**Other operating income**

Gains arising from dealing in foreign currencies	12,435	2,647
Other income	45,513	186
	<b>57,948</b>	<b>2,833</b>

**9. Operating expenses**

**Group**

Salaries and employee benefits (Note 10)	214,420	183,927
Occupancy expenses	15,070	15,033
Deposit protection fund	14,637	13,686
Depreciation	70,290	61,035
Directors' emoluments	17,410	18,823
Professional and legal services	34,544	17,800
Telecommunication	2,112	3,369
Other expenses	148,702	146,186
	<b>517,185</b>	<b>459,859</b>

**Notes to the financial statements (continued)**

	<b>2024</b>	<b>2023</b>
	<b>KES '000'</b>	<b>KES '000'</b>
<b>9. Operating expenses (continued)</b>		
<b>Bank</b>		
Salaries and employee benefits (Note 10)	214,420	183,927
Occupancy expenses	15,070	15,033
Deposit Protection Fund	14,637	13,686
Depreciation	70,290	61,035
Directors' emoluments	17,310	18,723
Professional and legal services	34,544	18,360
Telecommunication	2,112	3,369
Other expenses	147,898	144,301
	<b>516,281</b>	<b>458,434</b>
<b>10. Salaries and employee benefits</b>		
<b>Group and Bank</b>		
Salaries	149,289	130,622
Contributions to defined contribution plans	10,860	11,098
National Social Security Fund	1,361	756
Other staff costs	52,910	41,451
	<b>214,420</b>	<b>183,927</b>
<b>11. Profit before taxation</b>		
Profit before taxation is arrived at after charging:		
<b>Group</b>		
Depreciation expense (Note 25)	70,290	61,035
Director's emoluments:		
– Fees as non-executive	2,100	2,100
– Other*		
Auditors' remuneration	4,800	3,600
<b>Bank</b>		
Depreciation expense (Note 25)	70,290	61,035
Director's emoluments:		
• Fees as non-executive	2,100	2,100
• Other*		
Auditors' remuneration	4,800	3,600
* Directors emoluments 'other' include sitting allowances, chairman's honorarium and director's travel expenses.		

**Notes to the financial statements (continued)**

**12. Income tax credit**

Group	2024		2023	
	Group KES '000'	Bank KES '000'	Group KES '000'	Bank KES '000'
Current income tax credit	(15,063)	(15,679)	(8,100)	(8,990)
Deferred income tax (Note 25)	4,386	4,416	(11,861)	(11,831)
	<u>(10,677)</u>	<u>(11,263)</u>	<u>(19,961)</u>	<u>(20,821)</u>

The tax on the Group's profit differs from the theoretical amount using the basic tax rate as follows:

Group	2024	2023
	KES '000'	KES '000'
Accounting profit before tax	72,365	27,960
Computed tax using the applicable corporation tax rate of 30% (2023:30%)	21,710	8,388
Tax impact of expenses not deductible for tax purposes	(32,387)	(28,349)
<b>Income tax credit</b>	<u><b>(10,677)</b></u>	<u><b>(19,961)</b></u>
<b>Bank</b>		
Accounting profit before tax	70,409	25,092
Computed tax using the applicable corporation tax rate of 30% (2023:30%)	21,123	7,528
Tax impact of expenses not deductible for tax purposes	(32,386)	(28,349)
<b>Income tax credit</b>	<u><b>(11,263)</b></u>	<u><b>(20,821)</b></u>

**13. Equity investment designated as FVOCI**

Equity investments in Freshpick and Kenya Hotel Properties are due for valuation in 2025. Freshpick has been dormant since 2018. As a result, the net investment in the investee has not significantly changed. Accordingly, the Bank's investment has equally remained.

**Notes to the financial statements (continued)**

**14. Dividend per share**

The Bank did not pay an interim dividend in the year (2023: Nil). The Company does not propose payment of a final dividend (2023: Nil).

**15. Earnings per share**

The calculation of basic earnings per share is based on:

<b>Group</b>	<b>2024</b>	<b>2023</b>
Net profit for the year attributable to shareholders (KES '000)	83,041	47,921
Number of ordinary shares ('000)	52,125	52,125
Earnings per share (KES)	<b>1.59</b>	<b>0.92</b>
<b>Bank</b>		
Net profit for the year attributable to shareholders (KES '000)	81,671	45,913
Number of ordinary shares ('000)	52,125	52,125
Earnings per share (KES)	<b>1.57</b>	<b>0.88</b>

There were no potentially dilutive shares outstanding at 31 December 2024 (2023: nil).

**16. Cash and balances with Central Bank of Kenya**

<b>Group and Bank</b>	<b>2024</b> <b>KES '000'</b>	<b>2023</b> <b>KES '000'</b>
Cash on hand	179,017	131,606
Balances with Central Bank of Kenya:		
— Local currency cash reserve ratio	504,728	348,394
— Other balances (available for use by the Bank)	226,702	236,403
	<b>910,447</b>	<b>716,403</b>

The cash reserve ratio is non-interest earning and is based on the value of deposits as adjusted for Central Bank of Kenya requirements. At 31 December 2024, the cash reserve requirement was 5.25% (2023: 5.25%) of all customer deposits. These funds are available to finance the bank's day-to-day operations in a limited way provided that on any given day the balance does not fall below the 3% minimum daily requirements and provided that the overall average in the month is at least 5.25%.

**17. Financial assets at fair value through profit or loss**

<b>Group</b>	<b>2024</b> <b>KES '000'</b>	<b>2023</b> <b>KES '000'</b>
<b>Financial assets at amortised cost</b>		
<b>Treasury bonds:</b>		
Maturing within one year	1,010,620	474,218
Maturing after one year	3,225,919	3,121,406
	<b>4,236,539</b>	<b>3,595,624</b>

**Notes to the financial statements (continued)**

**Financial assets at fair value through profit or Loss**

**Treasury bonds:**

Maturing after one year	531,178	184,960
	<u>4,767,717</u>	<u>3,780,584</u>

	2024	2023
Bank	KES '000'	KES '000'
<b>Financial Assets at amortised cost</b>		

**Treasury bonds:**

Maturing within one year	1,010,620	474,218
Maturing after one year	3,204,937	3,100,408
<b>Total financial assets at amortized cost</b>	<u>4,215,557</u>	<u>3,574,626</u>

**Financial assets at fair value through profit or loss**

**Treasury bonds:**

Maturing after one year.	531,178	184,960
	<u>4,746,735</u>	<u>3,759,586</u>

The weighted average effective interest rate on government securities at 31 December 2024 was 12.86% (2023 – 11.95%). As at 31 December 2024, treasury bonds with face value of KES 4,247,500 (2023 – KES 3,571,100) had been pledged to secure borrowings from Central Bank of Kenya.

**18. Deposits and balances due from banking institutions**

	2024	2023
Group and Bank	KES '000'	KES '000'
Sec		
Due within 90 days	3,189,308	2,497,805
Due between 3 months and 1 year	71,850	147,460
	<u>3,261,158</u>	<u>2,645,265</u>

The weighted average effective interest rate on placements with other banks at 31 December 2024 was 8.76% (2023 – 4.40%).

**19. Loans and advances to customers**

	2024	
	Group	Bank
	KES '000'	KES '000'
Overdrafts	4,724,691	4,727,691
Loans	6,777,502	6,724,414
Staff loans	288,083	288,083
	<u>11,793,276</u>	<u>11,740,188</u>
	(849,198)	(796,110)
Less: Expected Credit Loss		
	<u>10,944,078</u>	<u>10,944,078</u>

**Notes to the financial statements (continued)**

Maturing within 1 year	6,301,861	6,301,861
Between 1 and 3 years	359,679	359,679
Over 3 years	4,282,538	4,282,538
	<b>10,944,078</b>	<b>10,944,078</b>

	<b>2023</b>	
	<b>Group</b>	<b>Bank</b>
	<b>KES '000'</b>	<b>KES '000'</b>
Overdrafts	3,980,520	3,980,520
Loans	7,304,231	7,251,143
Staff loans	267,828	267,828
	<b>11,552,579</b>	<b>11,499,491</b>
Less: Expected Credit Loss	(1,117,364)	(1,064,276)
	<b>10,435,215</b>	<b>10,435,215</b>
Maturing within 1 year	4,585,028	4,585,028
Between 1 and 3 years	661,362	661,362
Over 3 years	5,188,825	5,188,825
	<b>10,435,215</b>	<b>10,435,215</b>

The weighted average effective interest rate on loans and advances to customers at 31 December 2024 was 12.63% (2023: 11.63%).

**Expected credit losses on loans and advances charged to profit or loss.**

	<b>2024</b>	<b>2023</b>
<b>Group</b>	<b>KES '000'</b>	<b>KES '000'</b>
Increase in ECL during the year	(267,680)	(1,804)
Recoveries during the year	(25,113)	(25,194)
Direct write off	-	(86,003)
	<b>(292,793)</b>	<b>(113,001)</b>
<b>Bank</b>		
Increase in ECL during the year	(271,271)	(504)
Recoveries during the year	(25,113)	(25,104)
Direct write off	-	(86,003)
	<b>(292,728)</b>	<b>(111,701)</b>

**20. Financial assets at fair value through other comprehensive income**

**Group and Bank**

	<b>2024</b>	<b>2023</b>
	<b>KES '000'</b>	<b>KES '000'</b>
<b>Kenya Hotel Properties Plc 2,258,017 ordinary shares of KES 20 each</b>		
At 1 January	456,781	456,781
Impairment loss on equity investment	-	-
	<b>456,781</b>	<b>456,781</b>

**Notes to the financial statements (continued)**

The bank's IFRS 9 ECL Model is scheduled for a detailed review in the 2025 line with its approved Governance Framework.

	2024 KES '000'	2023 KES '000'
Chemelil Sugar Company Limited 150,000 ordinary shares of KES. 20 each	3,000	3,000
Pan African Paper Mills Limited 104,000 ordinary shares at KES. 20	2,080	2,080
Kenya United Steel Company Limited 180,000 ordinary shares of KES. 5 each	900	900
East African Sugar Industries Limited 100,000 ordinary shares of KES. 20 each	2,000	2,000
	<u>7,980</u>	<u>7,980</u>
Impairment allowance	(7,980)	(7,980)
<b>Net carrying amount of unquoted shares (impaired)</b>	-	-
<b>Net carrying amount of equity investments</b>	<u>456,781</u>	<u>456,781</u>

**21. Investment in subsidiary**

Bank	2024 KES '000'	2023 KES '000'
<b>Shares at cost:</b>		
Small Enterprises Finance Company Limited (SEFCO)	<u>32,048</u>	<u>32,048</u>

SEFCO is a wholly owned subsidiary of the bank. The subsidiary company is incorporated in Kenya. The subsidiary has the same accounting period as the parent.

**22. Investment in Associates**

Bank	2024 KES '000'	2023 KES '000'
<b>Shares at cost:</b>		
Freshpick Processors (EPZ) Limited	<u>268,490</u>	<u>268,490</u>

The Bank owns 43% of Freshpick Processors (EPZ) Limited. The investee has been dormant since 2018. As a result, the net investment in the investee has not significantly changed. Accordingly, the Bank's investment has equally remained.

**23. Tax (payable)/recoverable**

	2024		2023	
	Group KES '000'	Bank KES '000'	Group KES '000'	Bank KES '000'
As at 1 January	47,478	45,589	38,887	36,598
Tax credit (Note 12)	15,063	15,679	8,101	8,991
Tax paid	799	-	490	-
	<u>63,340</u>	<u>61,268</u>	<u>47,478</u>	<u>45,589</u>

**Notes to the financial statements (continued)**

**24. Other assets**

	2024		2023	
	Group KES '000'	Bank KES '000'	Group KES '000'	Bank KES '000'
Rent receivable	2,939	2,939	2,939	2,939
Uncleared effects	12,844	12,844	2,516	2,516
Prepayments	30,499	30,499	22,610	22,610
Due from KDC	107,759	107,759	56,733	56,733
Other receivables	3,383	3,383	19,381	19,381
	<b>157,424</b>	<b>157,424</b>	<b>104,179</b>	<b>104,179</b>

Amounts due from Kenya Development Corporation (KDC), relate to payments to Kenya Revenue Authority (KRA) by the Bank on behalf of KDC being VAT on sale of Finance House. KDC merged the operations of Industrial and Commercial Development Corporation (ICDC), Tourism Finance Corporation (TFC) and IDB Capital Limited upon formation in the year 2020.

**25. Deferred income tax**

Deferred income tax is calculated in full on all temporary differences under the liability method using a principal tax rate of 30% (2023: 30%). The movement on the deferred tax account is as follows:

	Group KES '000'	Bank KES '000'
<b>2023</b>		
As at 1 January 2023	117,505	117,264
Charge to profit or loss	11,861	11,831
Charged to other comprehensive income	-	-
As at 31 December 2023	<b>129,366</b>	<b>129,095</b>
<b>2024</b>		
As at 1 January 2024	129,366	129,095
Charge to profit or loss (Note 12)	(4,386)	(4,416)
Charged to other comprehensive income	-	-
As at 31 December 2024	<b>124,980</b>	<b>124,679</b>

The deferred income tax assets and liabilities, deferred tax credit/(charge) in the statement of profit or loss are attributable to the following items:

Group	At 1 January KES '000'	(Charge)/ credit to profit or loss KES '000'	At 31 December KES '000'
<b>Deferred income tax liabilities</b>			
Fair value gain on equity investments	(20,681)	-	(20,681)
<b>Deferred income tax assets</b>			
Property and equipment	28,174	(8,522)	19,652
Right of use assets	10,592	1,831	12,423
Expected credit loss on loans and advances	95,405	13,304	108,709
Other provisions	4,015	5,248	9,263
	<b>138,186</b>	<b>11,861</b>	<b>150,047</b>
	<b>117,505</b>	<b>11,861</b>	<b>129,366</b>

**Notes to the financial statements (continued)**

<b>2024</b>	<b>At 1 January</b>	<b>(Charge)/</b>	<b>At 31</b>
	<b>KES '000'</b>	<b>credit to</b>	<b>December</b>
		<b>profit or loss</b>	<b>December</b>
	<b>KES '000'</b>	<b>KES '000'</b>	<b>KES '000'</b>
<b>Deferred income tax liabilities</b>			
Fair value gain on equity investments	(20,681)	-	(20,681)
<b>Deferred income tax assets</b>			
Property and equipment	19,652	(2,684)	16,968
Right of use assets	12,423	1,726	14,149
Expected credit loss on loans and advances	108,709	(9,050)	99,659
Other provisions	9,263	5,622	14,885
	<u>150,047</u>	<u>(4,386)</u>	<u>145,661</u>
	<b>129,366</b>	<b>(4,386)</b>	<b>124,980</b>
<b>Bank</b>			
<b>2023</b>			
<b>Deferred income tax liabilities</b>			
Fair value gain on equity investments	(20,681)	-	(20,681)
<b>Deferred income tax assets</b>			
Property and equipment	28,174	(8,522)	19,652
Right of use assets	10,592	1,831	12,423
Expected credit loss on loans and advances	95,405	13,304	108,709
Other provisions	3,774	5,218	8,992
	<u>137,945</u>	<u>11,831</u>	<u>149,776</u>
	<b>117,264</b>	<b>11,831</b>	<b>129,095</b>
<b>2024</b>			
<b>Deferred income tax liabilities</b>			
Fair value gain on equity investments	(20,681)	-	(20,681)
<b>Deferred income tax assets</b>			
Property and equipment	19,652	(2,684)	16,968
Right of use assets	12,423	1,726	14,149
Expected credit loss on loans and advances	108,709	(9,050)	99,659
Other provisions	8,992	5,592	14,562
	<u>149,776</u>	<u>(4,416)</u>	<u>145,360</u>
	<b>129,095</b>	<b>(4,416)</b>	<b>124,679</b>

**Notes to the financial statements (Continued)**

**26. Property and equipment**

Group and Bank 2024	Right of Use Assets KES '000'	Leasehold improvements KES '000'	Furniture and equipment KES '000'	Computers KES '000'	Intangible Assets KES '000'	Motor vehicles KES '000'	Capital work in progress KES '000'	Total KES '000'
<b>Cost</b>								
At 1 January 2024	182,454	92,353	56,410	66,708	283,117	38,034	25,667	744,743
Adjustment			(8)					(8)
Adjusted Opening balance	182,454	92,353	56,402	66,708	283,117	38,034	25,667	744,735
Additions	16,579	-	6,750	6,295	227	12,745	50,017	92,613
Capital Work in progress	-	-	-	-	-	3,186	(3,186)	-
At 31 December 2024	<b>199,033</b>	<b>92,353</b>	<b>63,152</b>	<b>73,003</b>	<b>283,344</b>	<b>53,965</b>	<b>72,498</b>	<b>837,348</b>
<b>Depreciation</b>								
At 1 January 2024	73,107	61,400	39,185	51,029	234,316	38,034	-	497,071
Charge for the year	16,733	4,262	3,508	11,024	31,118	3,645	-	70,290
At 31 December 2024	<b>89,840</b>	<b>65,662</b>	<b>42,693</b>	<b>62,053</b>	<b>265,434</b>	<b>41,679</b>	<b>-</b>	<b>567,361</b>
<b>Net book amount at 31 December 2024</b>	<b>109,193</b>	<b>26,691</b>	<b>20,459</b>	<b>10,950</b>	<b>17,910</b>	<b>12,286</b>	<b>72,498</b>	<b>269,987</b>

As at 31 December 2024, property and equipment includes right-of-use assets of KES 109,193,000 (2023: KES. 109,347,000) related to leased branches and office premises (see Note 33).

**Notes to the financial statements (Continued)**

Group and Bank 2023	Right of Use Assets KES '000'	Leasehold improvements KES '000'	Furniture and equipment KES '000'	Computers KES '000'	Intangible Assets KES '000'	Motor vehicles KES '000'	Capital work in progress KES '000'	Total KES '000'
<b>Cost</b>								
At 1 January 2023	165,359	61,202	48,975	58,765	267,485	38,034	28,514	668,326
Additions	17,095	29,008	7,435	1,217	15,633	-	6,310	76,698
Capital Work in progress	-	2,143	-	7,014	-	-	(9,157)	-
Disposals	-	-	-	(289)	-	-	-	(289)
At 31 December 2023	<b>182,454</b>	<b>92,353</b>	<b>56,410</b>	<b>66,707</b>	<b>283,118</b>	<b>38,034</b>	<b>25,667</b>	<b>744,735</b>
<b>Depreciation</b>								
At 1 January 2023	58,011	60,334	36,861	41,819	201,144	38,034	-	436,203
Charge for the year	15,096	1,066	2,324	9,377	33,172	-	-	61,035
Disposals	-	-	-	(167)	-	-	-	(167)
At 31 December 2023	<b>73,107</b>	<b>61,400</b>	<b>39,185</b>	<b>51,029</b>	<b>234,316</b>	<b>38,034</b>	<b>-</b>	<b>497,071</b>
<b>Net book amount at 31 December 2023</b>	<b>109,347</b>	<b>30,953</b>	<b>17,217</b>	<b>15,678</b>	<b>48,802</b>	<b>-</b>	<b>25,667</b>	<b>247,664</b>

As at 31 December 2023, property and equipment includes right-of-use assets of KES 109,347,000 (2022: KES. 107,348,108) related to leased branches and office premises (see Note 33).



**Notes to the financial statements (continued)**

**27. Deposits and balances due to banking institutions**

<b>Group and Bank</b>	<b>2024 KES '000'</b>	<b>2023 KES '000'</b>
Payable within 90 days	1,474,294	1,244,422
Due between 3 months and 12 months	67,250	1,416,216
	<b><u>1,541,544</u></b>	<b><u>2,660,638</u></b>

The weighted average effective interest rate on deposits from other banks at 31 December 2024 was 0.00% (2023 – 1.51%).

**28. Customer deposits**

	<b>2024</b>		<b>2023</b>	
	<b>Group KES '000'</b>	<b>Bank KES '000'</b>	<b>Group KES '000'</b>	<b>Bank KES '000'</b>
From government and parastatals	1,177,689	1,177,689	822,438	822,438
From private sector and individuals	10,875,832	10,910,726	7,426,342	7,459,734
	<b><u>12,053,521</u></b>	<b><u>12,088,415</u></b>	<b><u>8,248,780</u></b>	<b><u>8,282,172</u></b>

Included in the Bank customer's deposits is KES 34,892,401 (2023: KES 33,392,000) due to the subsidiary company. Interest paid on these deposits during the year amounted to KES 560,000 (2023: KES 561,000).

The weighted average effective interest rate on customer deposits at 31 December 2024 was 12.37% (2023: 11.35%).

**29. Borrowings**

<b>2024</b>	<b>CBK KES '000'</b>	<b>ICDC KES '000'</b>	<b>Total KES '000'</b>
As at January 1	<b>3,331,055</b>	<b>384,163</b>	<b>3,715,218</b>
Additions	-	-	-
Repayments	(355,504)	(53,706)	(409,210)
As at 31 December	<b><u>2,975,551</u></b>	<b><u>330,457</u></b>	<b><u>3,306,008</u></b>
<b>2023</b>	<b>CBK KES '000'</b>	<b>ICDC KES '000'</b>	<b>Total KES '000'</b>
As at January 1	<b>3,048,644</b>	<b>435,355</b>	<b>3,483,999</b>
Additions	282,411	-	282,411
Repayments	-	(51,192)	(51,192)
As at 31 December	<b><u>3,331,055</u></b>	<b><u>384,163</u></b>	<b><u>3,715,218</u></b>

**Notes to the financial statements (continued)**

**Group and Bank**

**Maturities**

Less than one year	3,064,379	3,402,562
Between one and five years	241,629	243,771
Over 5 years	-	68,885
	<b>3,306,008</b>	<b>3,715,218</b>

The weighted average effective interest rate on loan capital at 31 December 2024 was 15.60% (2023: 11.72%). All the figures are gross, hence inclusive of accrued interest.

**Loan terms.**

- Borrowings from the Central Bank of Kenya (CBK) comprise of short-term borrowings in form of Reverse Repos of up to 3 months at an average interest rate of 11.25% p.a. The facility is secured against the bank's government securities.
- The borrowing from Industrial & Commercial Development Corporation (ICDC) is repayable in 9 years from June 2021 at variable rate of 3% offered to ICDC by the National Treasury plus a 2% risk premium per annum.

**30. Other liabilities**

	2024		2023	
	Group KES '000'	Bank KES '000'	Group KES '000'	Bank KES '000'
Bills payable	190	190	551	551
Rent deposit	8,292	8,292	8,292	8,292
Deutsche Investitions-und EntwicklungsgesellschaftmbH (DEG) retained funds	83,216	83,216	90,468	90,468
Payable to Government of Kenya	65,281	65,281	65,281	65,281
Accruals	79,344	79,344	64,352	64,352
Other liabilities	40,053	37,953	19,533	17,762
	<b>276,377</b>	<b>274,276</b>	<b>248,477</b>	<b>246,706</b>

Movement in DEG related funds is attributed to Nakuru Branch opening expenses amounting to KES 9,000,000. The funds are recouped to the Statement of Profit or Loss once projects that have significant developmental impact are implemented.

**31. Share capital**

	2024 KES '000'	2023 KES '000'
<b>Authorised, issued and fully paid 1 January and 31 December</b>		
52,125,000 ordinary shares of KES 20 each	1,042,500	1,042,500
	<b>1,042,500</b>	<b>1,042,500</b>

Total number of shares in issue 52,125,000 (2023: 52,125,000).

All ordinary shares rank equally with regard to the Banks's residual assets. The holders of ordinary shares are entitled to receive dividend has declared from time to time and are entitled to one vote per share at the general meeting of the company.

**Notes to the financial statements (continued)**

**32. Cash and cash equivalent**

	<b>2024</b>	<b>2023</b>
	<b>KES '000'</b>	<b>KES '000'</b>
<b>Group and Bank</b>		
Cash in hand (Note 16)	179,017	131,606
Cash at Central Bank of Kenya (Note 16)	226,702	236,403
Deposits and balances due from banks (Note 18)	3,189,312	2,497,805
Deposits and balances due to banks (Note 27)	(1,474,294)	(1,244,422)
	<u><b>2,120,737</b></u>	<u><b>1,621,392</b></u>

**33. Leases**

The Bank leases a number of premises for head office and the branches. The leases typically run for an initial period of between five and ten years with an option to renew the lease at the expiry of the lease.

Previously, these leases were classified as operating leases under IAS 17. The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. offices);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term

Information about leases for which the Bank is a lessee is presented below.

**(a) Right-of-use assets**

Right-of-use assets relate to leased head office and branch office premises that are presented within property and equipment under Note 25

	<b>2024</b>	<b>2023</b>
	<b>KES '000'</b>	<b>KES '000'</b>
At 1 January	109,347	107,347
Additions:	16,579	17,095
Depreciation charge for the year	(16,733)	(15,096)
<b>At 31 December</b>	<u><b>109,193</b></u>	<u><b>109,347</b></u>

As at 31 December, the future minimum lease payments under non-cancellable operating leases were payable as follows

**Notes to the financial statements (continued)**

**33. Leases (continued)**

**(b) Lease liabilities.**

The movement in lease liabilities during the year is as follows:

	<b>2024</b> <b>KES '000'</b>	<b>2023</b> <b>KES '000'</b>
At 1 January	151,892	143,790
Additions:	16,579	17,095
Lease Interest Charge	17,649	16,939
Interest Paid	(17,649)	(16,939)
Lease rental payment	(28,628)	(8,993)
<b>At 31 December</b>	<b><u>157,492</u></b>	<b><u>151,892</u></b>

**(c) Amount recognized in profit or loss**

Finance cost on lease liabilities	16,579	<u>16,639</u>
At 31 December	<u>16,579</u>	<u>16,639</u>

**(d) Amount recognized in the statement of cash flows.**

Total cash outflow for leases	<u>28,629</u>	<u>25,932</u>
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**34. Off balance sheet financial instruments**

At any time, the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and overdraft facilities. At 31 December 2024, interest rates on loans and overdrafts ranged from 3.00% to 21.60% (2023 – 3.00% to 19.60%). The contractual amounts of commitments are set out below:

**(a) Commitments to extend credit with respect to:**

	<b>2024</b> <b>KES '000'</b>	<b>2023</b> <b>KES '000'</b>
Undrawn loans	24,800	35,990
Undrawn overdraft facilities	157,339	377,265
	<b><u>182,139</u></b>	<b><u>413,254</u></b>

At 31 December 2024, interest rate on facilities subject to commitments ranged from 3.00% - 21.60% (2023: 3.00% - 19.60%).

**Notes to the financial statements (continued)**

**34. Off-balance sheet financial instruments (Continued)**

**(b) Commitments with respect to outstanding off-balance items**

	2024 KES '000'	2023 KES '000'
Guarantees	372,658	504,434
Acceptances	73,727	78,430
Letters of credit	141,690	11,821
Undelivered spots	92	92
	<u>588,167</u>	<u>594,777</u>

**(c) Nature of off-balance sheet financial instruments**

Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by the customers.

Guarantees are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customers' default.

An acceptance is an undertaking by the Bank to pay a bill of exchange drawn on a customer. The bank expects most of the acceptances to be presented, and reimbursement by the customer is almost immediate.

**35. Related party transactions**

**(a) Loans and advances to employees**

	2024 KES '000'	2023 KES '000'
At 1 January	266,216	260,438
Advances in the year	77,315	50,958
Interest charged during the year	9,875	10,313
Repayments in the year	(65,323)	(55,493)
<b>At 31 December</b>	<u><b>288,083</b></u>	<u><b>266,216</b></u>

Interest earned on staff loans during the year amounted to KES 9,874,761 (2023: KES 10,302,584).

**Notes to the financial statements (continued)**

**35. Related party transactions (Continued)**

**(b) Loans and advances to directors and their associates**

The Group has entered into transactions with its directors and their associates as follows:

	<b>2024</b>	<b>2023</b>
	<b>KES '000'</b>	<b>KES '000'</b>
Gross amount at 1 January	167,414	459,200
Interest charged	32,587	34,189
Receipts		(325,975)
<b>Net amount at 31 December</b>	<b>200,001</b>	<b>167,414</b>

**(c) Related party deposits**

Included in deposits is KES 34,894,000 (2023 – KES 33,392,000) due to a subsidiary company. Interest paid on these deposits during the year amounted to KES 560,000 (2023 – KES 558,000).

**(d) Directors' remuneration**

	<b>2024</b>	<b>2023</b>
	<b>KES '000'</b>	<b>KES '000'</b>
Fees for services as a director	2,200	2,200
Other emoluments	15,110	16,523
	<b>17,310</b>	<b>18,723</b>

**36. Financial assets that may be repledged or resold by counterparties**

As at 31 December 2024, Government securities amounting to KES 2,955.0 million (2023 – KES 3,571 million) were pledged as security against the facility from the Central Bank of Kenya. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

**37. Reserves**

**(a) Statutory reserves**

Statutory credit risk reserve relates to amounts set aside to cover additional provision for credit losses on loans and advances required to comply with the requirements of the Central Bank's Prudential Guidelines. This amount is not available for distribution. The movement for the year is as follows.

	<b>2024</b>	<b>2023</b>
At start of year	1,113,407	1,120,596
Transfers from/to retained earnings	217,606	(7,189)
At end of year	<b>1,331,013</b>	<b>1,113,407</b>

## Notes to the financial statements (continued)

### (b) Other reserves

Other reserves comprise of:

- (i) KES 281,000 of interest reserve established under a lending agreement between the bank and Industrial & Commercial Development Corporation (ICDC). Under the agreement, part of the interest payable on the loan capital balance was retained as interest reserve and is available for furtherance of the bank's business. The interest reserve is not available for distribution.
- (ii) **KES 594,785,000 (2023: KES 594,785,000)** revaluation reserves on the equity investment in Kenya Hotel Properties Plc net of related tax.

### 38. Comparative figures

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

### 39. Contingent liabilities

Litigation is a common occurrence in the banking industry due to the nature of business. The Group has established protocols for dealing with legal claims. The directors use the best available information, including independent external legal opinions, to determine any provisions for losses or disclosures to be made in the financial statements.

The Group entities have several unresolved legal and tax claims arising in the ordinary course of business at the year end. The unresolved tax claims and legal disputes are individually evaluated at the year-end for potential losses to the group. Where necessary, the directors seek independent legal advice on unresolved tax claims and legal matters.

Based on the information available at the approval of these financial statements, the directors believe the ultimate resolution of the unresolved tax claims and legal proceedings will not have a material effect on the group's operations.

### 40. Subsequent Events

Development Bank of Kenya (DBK) was among the state corporations earmarked for privatization, as outlined in a Cabinet Letter dated 14th February 2024. The process progressed smoothly, with engagements involving the Privatization Commission and the appointed transaction advisors.

Simultaneously, DBK initiated a capital-raising effort through a Rights Issue, a strategy approved by both the Bank's Board of Directors and the Cabinet Secretary, National Treasury. Currently, the Bank is in the final stages of preparing an Information Memorandum for the Rights Issue, with the process expected to conclude by 31st December 2025. This is in line with expectations of the new law assented by Parliament in December 2024 requiring banks to increase their Capital base to KES 10 billion by 2029.

However, on 24th September 2024, the Privatization Act 2023, which formed the legal basis for the Bank's privatization, was declared unconstitutional. This in effect puts on hold the intended privatization of the Bank under the Privatization Act 2023.

Considering this development, the Bank's management is now fully focused on the Rights Issue. The next key milestones include securing approval for the Information Memorandum and convening an Extraordinary General Meeting before the offer is opened, subject to Regulatory approvals.