# GULF AFRICAN BANK LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## AT

## 31 DECEMBER 2024

# GULF AFRICAN BANK LIMITED

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


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# GULF AFRICAN BANK LIMITED

## DIRECTORS AND STATUTORY INFORMATION

### BOARD OF DIRECTORS

| | |
|---|---|
| Mr Rafik Nayed* | Chairman |
| Mr Anuj Mediratta | Managing Director |
| Mr Admassu Y.Tadesse** | |
| Mr Ahmed Bajaber | |
| Mr Junaid Rahimullah*** | |
| Ms Jyoti Patel | |
| Mrs Nawaal Salim | |
| Mr Richard Showell**** | |
| Mr Zayed Rashid Al Amin***** | |
| Mr Thantalur V. P Raja****** | |
| Ms Oluwatobi Boshoro**** | Appointed 4 September 2024 |

*Swiss **Ethiopian ***Pakistani ****British *****Bahraini ******Indian

### SECRETARY

Mrs Amina Bashir
Geminia Insurance Plaza
Kilimanjaro Avenue
Upper Hill
PO Box 43683 – 00100
Nairobi

### SHARI'AH SUPERVISORY BOARD

| | |
|---|---|
| Prof Mohamed Salim Badamana | Chairman |
| Mufti Ahmed Suliman | |
| Dr Mohammed Burhan Arbouna | |

### INDEPENDENT AUDITOR

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

### REGISTERED OFFICE

Geminia Insurance Plaza
Kilimanjaro Avenue
Upper Hill
PO Box 43683 – 00100
Nairobi

# GULF AFRICAN BANK LIMITED

## STATEMENT ON CORPORATE GOVERNANCE

Corporate governance relates to the processes, systems, practices and procedures that govern organisations and the manner in which these rules and regulations are applied and followed. These processes and practices are aimed at maintaining and increasing shareholder value simultaneously with the satisfaction of other stakeholders in the context of the organisation's corporate mission.

**The Board of Directors**

***Governance principles***

The Board of Directors is composed of the Chairman, Executive, and Non-Executive Directors, all of whom have extensive business and banking experience applied in the management of the Bank. The Board meets every quarter to review the Bank's performance against the business plan in addition to formulating and implementing the Bank's strategy.

The Central Bank of Kenya Prudential Guidelines require that appointment of all directors must be approved by Central Bank, a requirement that the Bank has complied with.

The Board has delegated authority for the conduct of the day to day business to the Managing Director (MD). However, the Board retains responsibility for establishing and maintaining the Bank's overall internal control of financial, operational and compliance issues.

The Board has three main functional committees (Audit, Credit and Risk Management) which meet at least quarterly with the main functions outlined below. These are supported by Management committees charged with implementing various decisions of the Board.

All the Bank's Directors and employees adhere to the principles of the Code of Conduct in all of their dealings on behalf of the Bank. The Code of Conduct ensures that all our actions are in the overall best interests of the Bank and reflects our commitment to maintaining the highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

The Board ensures that accountability is enhanced through a system of objective goal setting for all employees and periodic performance appraisals, which cuts across all levels of staff. In addition, the Board has delegated financial and other powers with clearly defined responsibilities on each matter.

The Board also emphasizes on high levels of efficiency and effectiveness. This is made possible by ensuring that the Bank has a good pool of well-trained staff with the appropriate skills required to perform their duties. On the other hand, the human resource policy stipulates a purely merit based reward system, which encourages staff members to exceptionally carry out their duties in excellence.

All the Directors are committed to acting honestly and in the best interests of the Bank. The Board also ensures that the Directors' personal interests do not conflict with their duty to the Bank and to all the stakeholders.

# GULF AFRICAN BANK LIMITED

## STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

**Board and Management Committees**

Tabulated below are Board and Management committees, their composition and membership, functions and the frequency of meetings in 2024.

| | Board Credit Committee | Board Audit Committee | Board Risk Management Committee | Management Credit Committee (MCC) | Assets and Liabilities Committee (ALCO) | Human Resources Committee (HRC) | Management Executive Committee (EXCO) |
|---|---|---|---|---|---|---|---|
| **Composition & Membership** | Composed of four Non –Executive Directors | Composed of three Non – Executive Directors | Composed of three Non – Executive Directors | Composed of the MD, Head of Finance, Head of Legal, Chief Operating Officer, and Head of Credit | Composed of the MD, Head of Finance, Head of Risk, Head of Credit, Head of Business, and Head of Treasury | Composed of the MD, Head of Human Resources, Head of Finance, Head of Legal, Head of Business, and Chief Operating Officer | Composed of the MD, Head of Finance, Head of Risk, Head of Legal, Head of Human Resources, Head of Business, and Chief Operating Officer |
| **Chairman** | Mr Admassu Y.Tadesse | Ms Jyoti Patel | Mrs Nawaal Salim | Mr Anuj Mediratta | Mr Anuj Mediratta | Mr Anuj Mediratta | Mr Anuj Mediratta |
| **Members** | Mr Junaid Rahimullah<br>Mr Ahmed Bajaber<br>Mr Rafik Nayed | Mr Junaid Rahimullah<br>Mr Thantalur V. P Raja | Mr Richard Showell<br>Mr Zayed Al Amin | Mr Isaak Ibrahim<br>Mrs Amina Bashir<br>Mr Joseph Nyaga<br>Mr Washington Kathurima | Mr Isaak Ibrahim<br>Mr Benjamin Adeya<br>Mr Washington Kathurima<br>Mrs Saada Mohamed<br>Mr Omar Abdalla | Mrs Irene Cherwon<br>Mr Isaak Ibrahim<br>Mrs Amina Bashir<br>Mrs Saada Mohamed, and Mr Joseph Nyaga | Mr Isaak Ibrahim<br>Mr Benjamin Adeya<br>Mrs Amina Bashir<br>Mrs Irene Cherwon<br>Mrs Saada Mohamed<br>Mr Joseph Nyaga |
| **Frequency of meetings** | Quarterly | Quarterly | Quarterly | Weekly | Monthly | Quarterly | Quarterly |

# GULF AFRICAN BANK LIMITED

## STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

**Board and Management Committees (Continued)**

| Board Credit Committee | Board Audit Committee | Board Risk Management Committee | Management Credit Committee (MCC) | Assets and Liabilities Committee (ALCO) | Human Resources Committee (HRC) | Management Executive Committee (EXCO) |
|---|---|---|---|---|---|---|
| – Direct, monitor and review all aspects that will impact upon present and future credit risk management at the Bank<br>– Approve credit facilities in excess of management credit committee limits<br>– Ensure compliance with Banking Act and Prudential Guidelines<br>– Conduct financing arrangement reviews independent of any person or committee responsible for sanctioning credit;<br>– Ensure that the credit policy and financing limits are reviewed at least on an annual basis as and when the environment so dictates; | – Review the structure and adequacy of internal controls<br>– Review the activities and scope of Internal Audit department and assess its effectiveness<br>– Review and coordinate between External Auditors and Internal Audit department<br>– Ensure that the Bank's financial statements are prepared in a timely and accurate manner and to review and recommend the same for approval by the board of directors.<br>– Receive and review internal and external audit reports and put in place measures to implement recommendations therein | – Review the adequacy and effectiveness of the Bank's enterprise risk management framework<br>– Ensure the risk controls and/or limits as defined by the Board are incorporated in the Bank's business control structure<br>– Consider and recommend to the Board of Directors for approval the Bank's risk appetite<br>– Oversee the Bank's processes and policies for determining risk appetite and review management's measurement and comparison of overall risk tolerance. As appropriate, confirm risk tolerance levels and capital targets and limits are within approvals given.<br>– Review the Bank's risk profile and monitoring<br>– Review the Bank's compliance with laws and regulations | – Ensure compliance with internal policies and procedures and the prudential guidelines in all financing activities<br>– Ensure the credit policies are clear and comprehensive and are communicated throughout the Bank, implemented, monitored and revised periodically to address any changes.<br>– Approve facilities within limits delegated by the board credit committee<br>– Monitor problem exposures and management of watch accounts.<br>– Review adequacy of provisioning | – Liquidity management<br>– Maturity gap management<br>– Determining the investment strategies of the Bank for maximization of risk adjusted returns over the long term<br>– Counterparty and settlements risk management<br>– Currency risk management<br>– Profit rate management | – Developing HR policies and procedures<br>– Defining staff development needs and designing intervention strategies<br>– Advising the Board on HR related strategic issues<br>– Ensuring that HR strategies are aligned with, support and promote the Bank's strategy for all Business Divisions and Support Functions.<br>– Regularly reviewing overall HR requirements of the Bank and recommending to the Board measures aimed at attracting, motivating, developing and retaining talent. | – Preparation and review of the Bank's vision, mission, core values, strategic objectives, financial plans and key policies of the Bank, to be submitted for approval of the Board of Directors as necessary<br>– Review any issues that warrant policy changes or impact on the overall strategy of the Bank raised by any of the committees such as ALCO, MCC and HRC<br>– Review and benchmark the Bank's financial performance and position<br>– Provide a platform for discussing various difficulties faced by the business units and recommend suggestions/innovations to enhance efficiency and performance |

## STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

| Board Credit Committee | Board Audit Committee | Board Risk Management Committee | Management Credit Committee (MCC) | Assets and Liabilities Committee (ALCO) | Human Resources Committee (HRC) | Management Executive Committee (EXCO) |
|---|---|---|---|---|---|---|
| – Ensure that there are effective procedures and resources to identify and manage irregular problem credits, minimize credit loss and maximize recoveries;<br>– Delegate and review financing limits to the sanctioning arms of the Bank<br>– review the quality of the Bank's facility portfolio, and ensure adequate provisions for non-performing accounts in compliance with requirements of the prudential guidelines.<br>– maintain overall accountability and authority for the adequacy and appropriateness of all aspects of the Bank's credit risk management process | – Review the risk areas of the Bank's operations covered in the scope of internal and external audits<br>– Review the adequacy, reliability and accuracy of financial information provided by management | – Review the effectiveness of the compliance function to ensure compliance with compliance with all applicable legal and regulatory requirements, at least annually.<br>– Review the findings of any examinations by regulatory agencies and any material correspondence with such agencies. | – Approving the on-boarding of insurers, valuers, rent collecting agencies and auditors into the Bank's panel of service providers and review their performance. | | – Reviewing and recommending to the Board the Bank's compensation structure and incentive schemes<br>– Reviewing and assessing risks arising from the Bank's compensation policies and practices<br>– Ensuring measures are in place to enhance the Bank's engagement with employees in order to improve staff morale and productivity | – Considering projects with capital expenditures in excess of budgets designated by the Board of Directors, and submitting them for approval by the Board<br>– Reviewing the respective authority levels for the various businesses and operations, as specified in the Authorities Manual<br>– Managing and setting a balance between the Bank's short and long-term objectives |

**Board meetings attendance**

The Central Bank of Kenya Prudential Guidelines 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:

| Names/date | 7 March 2024 | 24 June 2024 | 12 September 2024 | 10 December 2024 |
|---|---|---|---|---|
| Mr Rafik Nayed | Yes | Yes | No | Yes |
| Mr Anuj Mediratta | Yes | Yes | Yes | Yes |
| Admassu Y.Tadesse | Yes | Yes | Yes | A |
| Mr Ahmed Bajaber | Yes | Yes | Yes | Yes |
| Mr Junaid Rahimullah | Yes | Yes | Yes | Yes |
| Ms Jyoti Patel | Yes | Yes | Yes | Yes |
| Mrs Nawaal Salim | Yes | Yes | Yes | Yes |
| Mr Richard Showell | Yes | Yes | Yes | Yes |
| Mr Zayed Rashid Al Amin | Yes | Yes | Yes | Yes |
| Mr Thantalur V. P Raja | Yes | No | Yes | Yes |
| Ms Oluwatobi Boshoro | N/A | N/A | Yes | Yes |

*N/A: Was not a director as at that date
*A: Absent with apologies

**Board performance evaluation**

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

## REPORT OF THE SHARI'AH SUPERSIVORY BOARD

## TO MEMBERS OF GULF AFRICAN BANK LIMITED FOR THE YEAR ENDED 31 DECEMBER 2024

بسم الله الرحمن الرحيم

We have conducted our review to form an opinion as to whether Gulf African Bank Limited has complied with Shari'ah rules and principles and with the rulings set out by the Shari'ah Supervisory Board of the Bank.

The responsibility for ensuring that the Bank conducts its business in accordance with Islamic Shari'ah rules and principles is solely that of management of the Bank. It is the Shari'ah Supervisory Board's responsibility to form an independent opinion, based on the review of the operations of the Bank and report to you.

We conducted our review, which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Islamic Shari'ah rules and principles.

In our opinion, based on our review, the contracts, transactions and dealings entered into by the Bank during the year as presented for review were generally in compliance with Shari'ah rules and principles.

In line with the available information and disclosures that were presented by the Bank's management, the statement of financial position reviewed by the Shari'ah Supervisory Board is compliant with Islamic Shari'ah principles and Shari'ah Supervisory Board resolutions. The accuracy of the information and data provided representing the Bank's assets, liabilities, equity of investment account holders (depositors), and shareholders' equity are the responsibility of the Bank's management.

The Shari'ah Supervisory Board believes that the separate financial statements for the year ended 31 December 2024 along with the distribution of profit to depositors had been prepared in conformity with the Islamic Shari'ah regulations.

The relevant portions of income resulting from non-compliant transactions has not been considered as revenue for the bank and has been channelled to charity account under the Supervision of Shari'ah Supervisory Board.

**Zakah calculation**

Zakah is calculated on the Zakah base of the Bank in accordance with Financial Accounting Standard (FAS) 9 Zakah, issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), using the net invested funds method. The Zakah calculation has been provided in the appendix to the Bank's financial statements for the year ended 31 December 2024.

Allah knows the best.

Prof. Mohamed Salim Badamana
**Chairman – Shari'ah Supervisory Board**

**Date:** 12 March 2025

# GULF AFRICAN BANK LIMITED

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

The Directors have pleasure in submitting their report together with the audited separate financial statements for the year ended 31 December 2024 in accordance with Section 22 of the Banking Act and Section 650(1) of the Kenyan Companies Act 2015. The report discloses the state of affairs of Gulf African Bank Limited (the "Bank").

### 1. Principal activities

The principal activities of the Bank are provision of banking, financial, and related services. The Bank offers a range of Shari'ah compliant solutions for both individual and business customers.

### 2. Results

The results for the year are set out on page 14.

### 3. Dividend

The Directors have not recommended payment of dividend in 2024 (2023 – KShs 219,794,000).

### 4. Directors

The Directors who served during the year and up to the date of this report are set out on page 1.

### 5. Business overview

The overall results for the year ended 31 December 2024 reflect an increase in overall performance compared to 2023 with the Bank making profit after tax of KShs 1,351,532,000 (2023 – KShs 1,039,896,000), which represents a 30% rise, mainly as a result of increased revenues and a modest rise in operating expenses in the year. Total operating income increased by 15% to KShs 4,916,564,000 from KShs 4,277,625,000 in 2023, with net funded income increasing by 19% to KShs 3,956,372,000 (2023 – KShs 3,326,979,000) while all other non-funded income rose by 1% to KShs 960,192,000 (2023 – KShs 950,646,000).

Operating expenses, comprising of staff costs, other operating expenses, amortisation and depreciation, rose by 7% to KShs 2,400,709,000 from KShs 2,233,586,000 recorded in 2023. The increase in other operating expenses is mainly attributed to increased marketing costs on brand and branch revamp especially through digital marketing channels, ICT costs relating to ICT security tools as well as other operational tools, staff related costs relating to recently introduced programmes such as Affordable Housing Levy and increased NSSF contributions as well as cost of living adjustments. Other costs increases relate to cost of power, security and other outsourced services.

From the foregoing, profit before impairment provisions and taxes rose to KShs 2,515,855,000 compared to KShs 2,044,039,000 in the year 2023, which was 51% of operating income (2023 – 48%).

The performance of the Bank in 2024 was on the backdrop of a more stabilising global economic environment characterised by fall in inflation and stable financial markets though geo-political tensions remained elevated in the year.

**5. Business overview (Continued)**

Locally, Kenya is estimated to have grown by 5% in 2024 and is projected to grow by 5.1% in 2025–26. The sectors that had positive contributions included tourism and agriculture.

Slow private sector credit growth coupled with the changing tax and increased cost of living has contributed to increased estimation uncertainty in the preparation of the financial statements. The Bank has made various estimates for future events in the separate financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2024 and which the Bank believes are reasonable under the circumstances. The underlying assumptions are subject to uncertainties which are often outside the control of the Bank. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the separate financial statements.

The principal risks and uncertainties facing the Bank include credit risk, liquidity risk, market risks, operational risks and settlement risk. The Bank has mitigation plans and strategies for these risks as detailed in Note 5 of these separate financial statements.

**6. Consolidation of subsidiaries**

The Directors of the Bank made a decision not to prepare consolidated financial statements. The Bank is fully owned and not a subsidiary of any other entity, does not trade publicly and have not filed, nor is in the process of filing, financial statements for the purpose of issuing instruments in a public market and therefore has not included results of its subsidiaries in these financial statements. The Bank's subsidiaries were GAB Takaful Insurance Agency Limited and GAB Tamweel Limited as at 31 December 2024 and are financially immaterial to the Bank.

**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 Bank'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 Bank's auditor is aware of that information.

**8. Auditor**

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

**9. Approval of financial statements**

The separate financial statements were approved and authorised for issue at a meeting of the Board of Directors held on 12 March 2025.

**BY ORDER OF THE BOARD**

**Company Secretary**
Mrs Amina Bashir

**Date:** 12 March 2025

# GULF AFRICAN BANK LIMITED

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the separate financial statements of Gulf African Bank Limited set out on pages 14 to 80 which comprise the separate statement of financial position as at 31 December 2024, the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows, for the year then ended, and notes to the separate financial statements, including material accounting policies.

The Directors' responsibilities include: determining that the basis of preparation described in Note 2 is an acceptable basis for preparing and presenting the separate financial statements in the circumstances, preparation and presentation of financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with IFRS Accounting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the separate financial statements give a true and fair view of the financial position of the Bank and of its profit or loss and cash flows.

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

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

**Approval of the financial statements**

The separate financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 12 March 2025 and were signed on its behalf by:

Mr Rafik Nayed
*Chairman*

Ms Jyoti Patel
*Director*

Mrs Amina Bashir
*Company Secretary*

**Date:** 12 March 2025

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

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

# INDEPENDENT AUDITOR'S REPORT
# TO THE SHAREHOLDERS OF GULF AFRICAN BANK LIMITED

## Report on the audit of the separate financial statements

### *Opinion*

We have audited the separate financial statements of Gulf African Bank Limited (the "Bank") set out on pages 14 to 80 which comprise the separate statement of financial position as at 31 December 2024, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including material accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2024, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) and in the manner required by the Kenyan Companies Act, 2015.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the separate financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other information*

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

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

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



KPMG Kenya, is a registered partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited,a private English company limited by guarantee.

Partners
AM Mbai
BM Ndung'u
BO Amukah
GM Kasimu
JI Kariuki
JM Gathecha
JM Ndunyu
JM Ngonga
MM Gachuhi
M Muthusi
PI Kinuthia
S Obock
W Genga

## INDEPENDENT AUDITOR'S REPORT
## TO THE SHAREHOLDERS OF GULF AFRICAN BANK LIMITED (CONTINUED)

**Report on the audit of the separate financial statements (Continued)**

***Directors' responsibilities for the separate financial statements***

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

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

***Auditor's responsibilities for the audit of the separate financial statements***

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

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

**Report on the audit of the separate financial statements (Continued)**

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

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

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

**Report on other legal and regulatory requirements**

As required by the Kenyan Companies Act, 2015 we report to you, solely based on our audit of the separate financial statements, that the information given in the report of the directors on pages 8 and 9 is consistent with the separate financial statements.

*The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Maurice Gachuhi – P/2699.*

*For and on behalf of:*

**KPMG Kenya**
**Certified Public Accountants**
**PO Box 40612 – 00100**
**Nairobi, Kenya**

**Date:** 27 March 2025

# GULF AFRICAN BANK LIMITED

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

| | Note | 2024<br>KShs '000 | 2023<br>KShs '000 |
|---|---|---|---|
| Income from financing and investing activities | 8 | 4,917,813 | 3,965,092 |
| Income paid to depositors | 9(a) | ( 919,268) | ( 600,602) |
| Income paid for financing liabilities | 9(b) | ( 42,173) | ( 37,511) |
| **Net profit income** | | **3,956,372** | **3,326,979** |
| Fee and commission income | 10(a) | 605,654 | 577,536 |
| Fee and commission expense | 10(a) | ( 15,880) | ( 15,749) |
| **Net fee and commission income** | | **589,774** | **561,787** |
| Foreign exchange income | | 342,338 | 388,544 |
| Other income | 10(b) | 28,080 | 315 |
| **Operating income** | | **4,916,564** | **4,277,625** |
| Staff expenses | 11(a) | (1,243,130) | (1,225,179) |
| Other operating expenses | 11(b) | ( 929,262) | ( 810,869) |
| Amortisation | 20 | ( 57,955) | ( 56,522) |
| Depreciation | 21 | ( 170,362) | ( 141,016) |
| **Operating expenses** | | **(2,400,709)** | **(2,233,586)** |
| **Operating profit before impairment losses and taxation** | | **2,515,855** | **2,044,039** |
| Impairment loss on financial assets | 17(c) | ( 549,356) | ( 514,554) |
| **Profit before tax** | 12 | **1,966,499** | **1,529,485** |
| Income tax expense | 13(a) | ( 614,967) | ( 489,589) |
| **Profit for the year** | | **1,351,532** | **1,039,896** |
| Other comprehensive income, net of income tax | | - | - |
| **Total comprehensive income for the year** | | **1,351,532** | **1,039,896** |

The notes set out on pages 18 to 80 form an integral part of these separate financial statements.

# GULF AFRICAN BANK LIMITED

## SEPARATE STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2024

| ASSETS | Note | 2024 KShs '000 | 2023 KShs '000 |
|---|---|---|---|
| Cash and balances with Central Bank of Kenya | 14 | 3,052,916 | 2,685,188 |
| Deposits and balances due from banking institutions | 15(a) | 13,346,402 | 12,527,639 |
| Investment securities | 16 | 880,319 | 313,579 |
| Financing arrangements | 17(a) | 25,266,762 | 24,318,550 |
| Other assets | 18 | 709,701 | 898,526 |
| Tax recoverable | 13(c) | 133,501 | - |
| Investment in subsidiary | 19 | 1,100 | 1,000 |
| Intangible assets | 20 | 154,009 | 189,405 |
| Property and equipment | 21 | 507,269 | 514,254 |
| Deferred tax asset | 22 | 863,860 | 677,540 |
| **TOTAL ASSETS** | | **44,915,839** | **42,125,681** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Liabilities** | | | |
| Deposits from customers | 23 | 35,823,592 | 34,062,615 |
| Current income tax payable | 13(c) | - | 307,891 |
| Other liabilities | 24 | 892,814 | 687,480 |
| **Total liabilities** | | **36,716,406** | **35,057,986** |
| **Shareholders' equity (Page 16)** | | | |
| Share capital | 26(a) | 366,324 | 366,324 |
| Share premium | 26(b) | 2,282,112 | 2,282,112 |
| Statutory credit risk reserve | 26(c) | - | 28,430 |
| Retained earnings | | 5,550,997 | 4,171,035 |
| Proposed dividend | 32 | - | 219,794 |
| **Total shareholders' equity** | | **8,199,433** | **7,067,695** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **44,915,839** | **42,125,681** |

The separate financial statements on pages 14 to 80 were approved and authorised for issue at a meeting held by the Board of Directors on 12 March 2025 and were signed on its behalf by:

Mr Rafik Nayed
*Chairman*

Ms Jyoti Patel
*Director*

Mrs Amina Bashir
*Company Secretary*

The notes set out on pages 18 to 80 form an integral part of these separate financial statements.

# GULF AFRICAN BANK LIMITED

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

| 2024: | Note | Share capital KShs '000 | Share premium KShs '000 | Statutory credit risk reserve KShs '000 | Retained earnings KShs '000 | Proposed dividend KShs '000 | Total KShs '000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2024 | | 366,324 | 2,282,112 | 28,430 | 4,171,035 | 219,794 | 7,067,695 |
| Profit for the year | | - | - | - | 1,351,532 | - | 1,351,532 |
| Transfer from statutory credit risk reserve | | - | - | ( 28,430) | 28,430 | - | - |
| **Total comprehensive income for the year** | | - | - | ( 28,430) | 1,379,962 | - | 1,351,532 |
| **Transactions with owners in their capacity as owners** | | | | | | | |
| Dividend paid for 2023 | 32 | - | - | - | - | (219,794) | ( 219,794) |
| **Total transaction with owners** | | - | - | - | - | **(219,794)** | **( 219,794)** |
| **At 31 December 2024** | | **366,324** | **2,282,112** | - | **5,550,997** | - | **8,199,433** |
| **2023:** | | | | | | | |
| At 1 January 2023 | | 366,324 | 2,282,112 | 304,999 | 3,074,364 | - | 6,027,799 |
| Profit for the year | | - | - | - | 1,039,896 | - | 1,039,896 |
| Transfer from statutory credit risk reserve | | - | - | (276,569) | 276,569 | - | - |
| **Total comprehensive income for the year** | | - | - | **(276,569)** | **1,316,465** | - | **1,039,896** |
| **Transactions with owners in their capacity as owners** | | | | | | | |
| Proposed dividend for 2023 | 32 | - | - | - | ( 219,794) | 219,794 | - |
| **Total transaction with owners** | | - | - | - | **( 219,794)** | **219,794** | - |
| **At 31 December 2023** | | **366,324** | **2,282,112** | **28,430** | **4,171,035** | **219,794** | **7,067,695** |

The notes set out on pages 18 to 80 form an integral part of these separate financial statements.

# GULF AFRICAN BANK LIMITED

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

| | Note | 2024 KShs '000 | 2023 KShs '000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 1,966,499 | 1,529,485 |
| Adjusted for: | | | |
| Amortisation | 20 | 57,955 | 56,522 |
| Depreciation | 21 | 170,362 | 141,016 |
| Re-measurement of right of use assets | 21 | - | 4,433 |
| Finance cost on lease liabilities | 9(b) | 42,173 | 37,511 |
| Loss on disposal of intangibles | | - | 2,496 |
| Loss/(gain) on disposal of property and equipment | 12 | 227 | ( 2,225) |
| De-recognition of right of use assets | 30(a) | 86,029 | 3,947 |
| Re-measurement of lease liabilities | 30(b) | 7,639 | ( 3,660) |
| Derecognition of lease liabilities | 30(b) | ( 105,125) | ( 5,305) |
| **Profit before working capital changes** | | **2,225,759** | **1,764,220** |
| **Changes in operating assets** | | | |
| Central Bank of Kenya – Cash Reserve Ratio (CRR) | | ( 51,667) | ( 154,141) |
| Deposits due from banking institutions | | 159,555 | ( 3,542,684) |
| Deposits and balances due from banking institutions under statutory management | 15(b) | ( 6,996) | 1,429 |
| Investment securities | | ( 566,740) | ( 313,579) |
| Financing arrangements | | ( 948,212) | ( 2,302,241) |
| Other assets | | 188,825 | ( 107,743) |
| | | **( 1,225,235)** | **( 6,418,959)** |
| **Changes in operating liabilities** | | | |
| Deposits from customers | | 1,760,977 | 2,694,816 |
| Other liabilities | | 188,820 | ( 88,318) |
| | | **1,949,797** | **2,606,498** |
| **Net cash from/(used in) operating activities before tax** | | **2,950,321** | **( 2,048,241)** |
| Income taxes paid | 13(c) | ( 1,242,679) | ( 471) |
| Finance cost on lease liabilities paid | 9(b) | ( 42,173) | ( 37,511) |
| **Net cash from/(used in) operating activities** | | **1,665,469** | **( 2,086,223)** |
| **Investing activities** | | | |
| Purchase of intangible assets | 20 | ( 10,600) | ( 69,648) |
| Purchase of property and equipment | | ( 77,706) | ( 113,153) |
| Investment in subsidiaries | | ( 100) | - |
| Proceeds from sale of property and equipment | | 292 | 8,182 |
| **Net cash used in investing activities** | | **( 88,114)** | **( 174,619)** |
| **Financing activities** | | | |
| Lease liabilities paid | 30(d) | ( 70,178) | ( 45,640) |
| Dividends paid | | ( 219,794) | - |
| **Net cash used in financing activities** | | **( 289,972)** | **( 45,640)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **1,287,383** | **( 2,306,482)** |
| Cash and cash equivalents at 1 January | | 9,512,833 | 11,819,315 |
| **Cash and cash equivalents at 31 December** | 27 | **10,800,216** | **9,512,833** |

The notes set out on pages 18 to 80 form an integral part of these separate financial statements.

# GULF AFRICAN BANK LIMITED

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

### 1. REPORTING ENTITY

Gulf African Bank Limited (the "Bank") offers Shari'ah compliant banking services in Kenya. It is incorporated in Kenya under the Kenyan Companies Act, 2015 as a limited liability Company and is licensed under the Banking Act and is domiciled in Kenya. The company is regulated by the Central Bank of Kenya.

The address of the Bank's registered office is as follows:

Geminia Insurance Plaza
Kilimanjaro Avenue
Upper Hill
PO Box 43683 – 00100
Nairobi

The separate financial statements of the Bank as at and for the year ended 31 December 2024 comprise the Bank only (referred to as "Company" or "Bank").

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

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

These separate financial statements have been prepared based on accounting policies applicable to the business a going concern.

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

The material accounting policies are set out on Note 4.

#### (b) Basis of measurement

The separate financial statements have been prepared under the historical cost basis of accounting except where otherwise stated in the accounting policies below.

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

The preparation of financial statements in conformity with IFRS Accounting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on the Directors' best knowledge of current events, actions, historical experiences and various other factors that are believed to be reasonable under the circumstances, actual results may differ from the estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

## 2. BASIS OF PREPARATION (Continued)

### (c) Use of estimates and judgments (continued)

In particular, information about significant areas of estimation and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is described in Note 6.

The Bank has made various estimates for future events in the separate financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2024 and which the Bank believes are reasonable under the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Bank. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the financial statements.

The material accounting estimates impacted by these forecasts and associated uncertainties are largely related to expected credit losses, fair value measurement and the recoverable amount of non-financial assets.

### (d) Functional and presentation currency

The separate financial statements are presented in Kenya shillings (KShs) which is the Bank's functional and presentation currency. Except as otherwise indicated, financial information presented in Kenya shillings has been rounded to the nearest thousand (KShs '000').

### (e) Consolidation of subsidiaries

The Directors of the Bank made a decision not to prepare consolidated financial statements. The Bank is fully owned and not a subsidiary of any other entity, does not trade publicly and have not filed, nor is in the process of filing, financial statements for the purpose of issuing instruments in a public market and therefore has not included results of its subsidiaries in these financial statements. The Bank's subsidiaries were GAB Takaful Insurance Agency Limited and GAB Tamweel Limited as at 31 December 2024 and were not consolidated because they are financially immaterial to the Bank as disclosed at Note 19.

## 3. DEFINITIONS OF THE BANK'S PRODUCTS

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

### (a) Murabaha

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

### (b) Diminishing Musharaka

An Islamic financing transaction whereby the Bank will enter into agreement to jointly purchase an asset with another party and income will be received by the Bank relating to that proportion of the asset owned by the Bank at any point in time. The other party to the agreement will make separate payments to purchase additional proportion of the asset from the Bank thereby reducing the Bank's effective share.

## 3. DEFINITIONS OF THE BANK'S PRODUCTS (Continued)

### (c) Ijarah

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

### (d) Mudaraba

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

### (e) Customer deposits

Deposits are generated on two modes: Qard and Mudaraba. Deposits taken on the basis of Qard are classified as current accounts while deposits generated on Mudaraba basis are classified as savings and time deposit accounts. No profit or loss is passed to current account depositors. Profit realised in investment pools is distributed among depositors in pre-agreed profit-sharing ratio. Rab ul Maal share is distributed among depositors according to weightages assigned at the inception of the profit calculation period.

### (f) Income paid to depositors

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

### (g) Tawarruq

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

### (h) Wakala

A contract of agency under Islamic financing arrangement whereby one person appoints another person to perform a certain task on his behalf, in which case the principal or investor (Muwakkil), appoints the agent (Wakil), to perform certain tasks on its behalf (each a "Wakala") from time to time, whereby the Wakil shall act as an agent of the investor with respect to the investment of a specified amount of money.

### (i) Sukuk

Sukuk represents certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services.

## 4. MATERIAL ACCOUNTING POLICIES

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

### (a) Revenue recognition

Income is recognised on an accrual basis using the effective profit rate method.

#### *(i) Income from Islamic financing and investing activities*

- Murabaha income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.
- Diminishing Musharaka income is accounted for on the basis of the reducing balance on a time apportioned basis that reflects the effective yield on the asset.
- Ijarah income is recognised on a time apportioned basis over the lease term.
- Mudaraba income or losses are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib; whereas the losses are charged to income on their declaration by the Mudarib.
- Income for services rendered is recognised when earned.

*Calculation of profit income*

Income from financing arrangements is recognised in profit or loss using the effective profit rate method. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

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

When calculating the effective profit rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not the expected credit loss (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective profit rate is calculated using estimated future cash flows including ECL.

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

*Amortised cost and gross carrying amount*

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

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

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (a) Revenue recognition (continued)

*(i) Income from Islamic financing and investing activities – continued*

*Calculation of profit income – continued*

The effective profit rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating revenue from financing and investing activities, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit- impaired) or to the amortised cost of the liability.

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

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

The Bank does not, as a policy, engage in any activities that involve receipt or payment of interest or any other non-Shari'ah compliant activities. However, any non-Shari'ah compliant income earned by the Bank, due to circumstances beyond its control, is transferred to Gulf African Bank Foundation to be used for charitable activities, with the supervision of the Shari'ah Supervisory Board.

*(iii) Dividend income*

Dividend income is recognised in profit or loss when the right to receive income is established.

*(iv) Fees and commission income and expenses*

Fees and commission income is recognized on an accrual basis when the service is provided. Fee and commission income mainly relates to account servicing fees, account transaction fees, charges on issuance of letters of credit, acceptances, guarantees and performance bonds. Other fees and commission expense relate mainly to interbank transaction and other fees, which are expensed as the services are received.

*(v) Foreign exchange income*

Foreign exchange gains and losses which includes all realised and unrealised movements are recognised in the income statement in the period in which they arise.

### (b) Translation of foreign currencies

Transactions in foreign currencies during the year are translated into Kenya shillings at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into Kenya shillings at the exchange rate ruling at that date. Resulting exchange differences are recognised in profit or loss for the year.

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (b) Translation of foreign currencies (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Kenya shillings at the exchange rate ruling at the date on which the fair value is determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost are translated into Kenya shillings using the exchange rate ruling at the date of the transaction.

### (c) Property and equipment

Items of leasehold improvements, motor vehicles, computers, equipment, and furniture and fittings are stated at cost less accumulated depreciation and impairment losses. Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

Depreciation is recognised on the assets on a straight-line basis to allocate the cost of each to its residual value over their estimated useful lives. The rates of depreciation used are based on the following estimated useful lives applicable to the current and prior year:

| | |
|---|---|
| — Leasehold improvements and right-of-use lease assets | over the lease period |
| — Computers | 3 years |
| — Equipment | 8 years |
| — Furniture and fittings | 8 years |
| — Motor vehicles | 4 years |

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

Property and equipment are de-recognised on disposals when no future economic benefits are expected to arise from the continuous use of the assets.

Gains or losses on disposal of property and equipment are determined by reference to their carrying amount and proceeds from disposals and are recognised in profit or loss in the year in which they arise.

### (d) Intangible assets

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

The costs incurred to acquire and bring to use specific computer software and licences are capitalised. The costs are amortised on a straight-line basis over the expected useful lives, from the date it is available for use, not exceeding five years and are recognised in profit or loss. Costs associated with maintaining software are recognised as an expense as incurred.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (d) Intangible assets (continued)

Amortization is recognised on the assets on a straight-line basis to allocate the cost of each to its residual value over their estimated useful lives. The rates of amortization used are based on the following estimated useful lives:

— Computer software 5 years

### (e) Leases

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

The Bank recognises 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, 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.

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (e) 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.

### (f) Taxation

Tax on the profit or loss for the year comprises current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

Deferred tax is provided on all temporary differences between the carrying amounts of financial assets and financial liabilities for financial reporting purposes and the amounts used for taxation purposes, except temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future and taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset on tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rates currently enacted.

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

In determining the amount of current and deferred tax, the Company considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events.

New information may become available that causes the Bank to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (g) Financial assets and liabilities

#### *(i) Classification*

*Financial assets*

Financial instruments are classified as follows:

*Amortised cost*

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as fair value through profit or loss:

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

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

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not designated as fair value though profit or loss:

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

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment by investment basis.

*Fair value through profit or loss (FVTPL)*

All other financial assets that are not classified as amortised cost and fair value through other comprehensive income (FVOCI) are classified and measured at fair value through profit or loss (FVTPL).

*Business model assessment*

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

— the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (g) Financial assets and liabilities (continued)

*(i) Classification – continued*

*Financial assets – continued*

*Business model assessment(continued)*

- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

In assessing whether the contractual cash flows are solely payments for principal and profit (SPPP), the Bank considers the contractual terms of the instrument.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

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

The Bank holds a portfolio of long-term fixed-rate loans (financing arrangements) for which it has the option to propose to revise the profit rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The customers have an option to either accept the revised rate or redeem the financing arrangement at par without penalty.

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (g) Financial assets and liabilities (continued)

*(i) Classification – continued*

***Financial assets – continued***

*Assessment of whether contractual cash flows are solely payments of principal and profit – continued*

The Bank has determined that the contractual cash flows of these financing arrangements are solely payments of principal and profit (SPPP) because the option varies the profit rate in a way that is consideration for the time value of money, credit risk, other basic financing risks and costs associated with the principal amount outstanding.

*Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

***Financial liabilities***

Financial liabilities are classified as measured at amortised cost. Financial liabilities include customer deposits, other liabilities, borrowings and deposits due to banking and non-banking financial institutions.

*(ii) Recognition*

The Bank initially recognizes Islamic financing and Islamic investing instruments, customer deposits and financing liabilities on the date at which they are originated. All other financial assets and liabilities are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provision of the instrument.

*(iii) Measurement*

A financial asset or financial liability is measured initially at fair value and for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. Islamic financing and investing assets are initially measured at fair value and incremental direct transaction costs, and subsequently measured at their amortised cost using the effective profit method less any impairment losses and deferred income.

*(iv) Derecognition*

*Financial assets*

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

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (g) Financial assets and liabilities (continued)

*(iv) Derecognition – continued*

*Financial assets – continued*

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

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

*Financial liabilities*

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

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

Financial assets and liabilities are offset, and the net amount reported on the statement of financial position when there is a legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

*(vi) Modification of financial assets and financial liabilities*

*Financial assets*

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised as per (iv) above and a new financial asset is recognised at fair value plus any eligible transaction costs.

If cash flows are modified when the customer is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (g) Financial assets and liabilities (continued)

#### *(vi) Modification of financial assets and financial liabilities – continued*

*Financial assets – continued*

If the Bank plans to modify a financial asset in a way that would result in forfeiture of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective profit rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective profit rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

*Financial liabilities*

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

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

#### *(vii) Fair value measurement*

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (g) Financial assets and liabilities (continued)

*(vii) Fair value measurement – continued*

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

The fair value of a financial instrument at initial recognition is normally the transaction price – the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at original recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or the transaction is closed out.

### (h) Identification and measurement of impairment of financial assets

The Bank recognises loss allowances for expected credit losses on the following financial instruments that are not measured at fair value through profit or loss:

— Islamic financing and investing assets;
— financial guarantee contracts issued;
— undrawn commitments issued, and
— other financial receivables

No impairment loss is recognised on equity investments.

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

— Islamic financing and investing assets that are determined to have low credit risk at the reporting date; and
— other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

Loss allowances for lease receivables are always measured at an amount equal to lifetime expected credit losses.

The Bank considers financing and investing assets to have low credit risk when the asset is not in arrears exceeding 30 days and that there are no other major indicators of increase in credit risk from other qualitative factors such as an underlying event or observable issue indicating increased credit risk.

12-month expected credit losses are the portion that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Financial instruments for which a 12-month expected credit loss is recognised are referred to as 'Stage 1 financial instruments'.

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (h) Identification and measurement of impairment of financial assets (continued)

Lifetime Expected Credit Losses are the losses that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime Expected Credit Loss is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

#### *(i) Measurement of Expected Credit Losses, ECL*

Expected Credit Losses are a probability-weighted estimate of credit losses. They are measured as follows:

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

#### *(ii) Restructured financial assets*

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

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

All the restructured financial assets of the Bank in the year did not result to derecognition of any assets.

#### *(iii) Credit-impaired financial assets*

At each reporting date, the Bank assesses whether financial assets are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (h) Identification and measurement of impairment of financial assets (continued)

*(iii) Credit-impaired financial assets – continued*

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

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or past due event for more than 90 days;
- the restructuring of a financing arrangement by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the customer will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A financing asset that has been renegotiated due to a deterioration in the customer's condition is usually assessed as to whether it is credit-impaired. Such renegotiation arrangement is meant to facilitate the Bank's collection of contractual cash flows. If the risk of collection of contractual cash flows has increased significantly during and after restructuring, then the financing asset is considered credit-impaired.

*(iv) Presentation of allowance for Expected Credit Losses*

Loss allowances for Expected Credit Losses are presented in the statement of financial position as follows:

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

*(v) Write–offs*

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

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (h) Identification and measurement of impairment of financial assets (continued)

*(v) Write–offs – continued*

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

*(vi) Non-integral financial guarantee contracts*

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

— the guarantee is implicitly part of the contractual terms of the debt instrument;
— the guarantee is required by laws and regulations that govern the contract of the debt instrument;
— the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
— the guarantee is given by the parent of the customer or another company within the customer's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it.

The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'

*(vii) Designation at fair value through profit or loss*

The Bank has not designated any financial assets or financial liabilities at FVTPL.

*(viii) Individual or collective assessment*

An individual measurement of impairment is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value off any underlying collateral. Each impaired asset is assessed on its merits, and the estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (i) Impairment for non-financial assets

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

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

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

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

### (j) Cash and cash equivalents

For the purpose of presentation of the cash flows in the separate financial statements, cash and cash equivalents include cash and balances with Central Bank of Kenya available to finance the Bank's day-to-day operations and net balances from banking institutions which mature within three months or less from the date of acquisition.

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

### (k) Employee benefits

#### *(i) Defined contribution plan*

The employees of the Bank are eligible for retirement benefits under a defined contribution plan which is managed by an independent pension fund manager.

Contributions to the plan are recognised in profit or loss as incurred. Any difference between amount recognised in profit or loss and the contributions payable is recognised in the statement of financial position under other receivables or other payables.

The employees and the Company also contribute to the National Social Security Fund. Contributions are determined by local statute and the Company's contributions are recognised in profit or loss in the year to which they relate.

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (k) Employee benefits (continued)

*(ii) Short term employee benefits*

The Bank recognises the expected cost of short-term employee benefits in the form of compensated absences and bonus payments, when the employees render services and the obligation can be measured reliably.

*(iii) Post-employment benefits*

Majority of the Bank's employees are eligible for retirement benefits under a defined contribution scheme. Some contractual employees are entitled to gratuity as per their contract term.

Gratuity provisions are recognised for contractual employees as per their contractual terms. A provision is made in the financial statements for the estimated liability of such gratuity payable and movements in the provision are recognised in profit or loss.

*(iv) Termination benefits*

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

*(v) Share-based payments*

The grant-date fair value of equity-settled share-based payment awards granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

### (l) Provisions

Provisions are recognised when the Bank 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### (m) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared and will be shown as a separate component of equity until approved by the shareholders at the Annual General Meeting.

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (n) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for and disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the separate financial statements are approved for issue by the Directors. Any expected loss is recognised in profit or loss.

### (o) Comparatives

Wherever necessary, comparative figures have been adjusted to conform to changes in presentation in the current year's separate financial statements.

### (p) New standards, amendments and interpretations

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

| New standard or amendments | Effective for annual periods beginning on or after | Expected Impact |
|---|---|---|
| **Amendments** | 1 January 2024 | |
| — Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) | | Low |
| — Non-current Liabilities with Covenants (Amendments to IAS 1) | | Low |
| — Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) | | Low |

These standards did not have a material impact on the separate financial statements of the Bank.

*(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2024*

| New standards or amendments | Effective for annual period beginning or after |
|---|---|
| — Lack of Exchangeability (Amendments to IAS 21) | I January 2025 |
| — Amendments IFRS 9 and IFRS 7 regarding the classification and measurement of financial instruments | 1 January 2026 |
| — Annual improvements to IFRS Accounting Standards (Amendments to IFRS 1, 7, 9, 10 and IAS 7) | 1 January 2026 |
| — Contracts referencing nature-dependent electricity (Amendments to IFRS 9 and 7) | 1 January 2026 |
| — IFRS 18 Presentation and disclosure in Financial Statements | 1 January 2027 |
| — IFRS 19 Subsidiaries without public accountability: Disclosures | 1 January 2027 |
| — IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information | 1 January 2027 |
| — IFRS S2 Climate-related Disclosures | 1 January 2027 |

## 4. MATERIAL ACCOUNTING POLICIES (Continued)

### (p) New standards, amendments and interpretations (continued)

#### *(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2024*

| New standards or amendments | Effective for annual period beginning or after |
|---|---|
| — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) and IFRS Practice Statement 2). | Available for optional adoption /effective date deferred indefinitely*** |

All standards and interpretations will be adopted at their effective date except for those standards and interpretations that are not applicable to the Bank. The Bank is assessing the impact of these standards and interpretations.

## 5. FINANCIAL RISK MANAGEMENT

**Introduction and overview**

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

— Credit risk
— Operational risk
— Liquidity risk
— Market risk
— Settlement risk
— Capital management

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

***Risk management framework***

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Audit Committee, Credit Committee and Risk Management Committee, which are responsible for developing and monitoring risk management policies in their specified areas. These committees are assisted by management committees (that is, the Management Credit Committee (MCC), Asset and Liability Committee (ALCO), Human Resources Committee (HRC), and Management Executive Committee (EXCO)) to discharge their responsibilities effectively.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

**Introduction and overview (continued)**

***Risk management framework – continued***

The Board Risk Management Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

The Board Risk Management Committee is assisted in these functions by the Risk Management department. The department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Risk Management Committee.

### (a) Credit risk

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

**Management of credit risk**

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

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to the Head of Credit. Larger facilities require approval by Head of Credit, Management Credit Committee or the Board Credit Committee as appropriate.
- *Reviewing and assessing credit risk*. The Credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for financing arrangements), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Bank's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the risks arising thereon. 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 the Bank.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

*Management of credit risk – continued*

— *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Board Credit Committee on the credit quality of portfolios and appropriate corrective action is taken.
— *Providing advice, guidance and specialist* skills to business units to promote best practice throughout the Bank in the management of credit risk.

The Bank's exposure to credit risk on financing arrangements is analysed as follows:

| **Exposure to credit risk** | **2024 KShs'000** | **2023 KShs'000** |
|---|---|---|
| **Individually impaired (Stage 3)** | | |
| Impaired | 4,393,495 | 3,317,768 |
| Stage 3 impairment losses (Note 17(b)) | ( 2,642,533) | ( 2,106,741) |
| **Carrying amount** | **1,750,962** | **1,211,027** |
| **Collectively impaired** | | |
| Neither past due nor impaired | 22,417,532 | 22,134,086 |
| Past due but not impaired (1 – 3 months) | 1,309,420 | 1,212,420 |
| Stage 1 and 2 impairment allowance (Note 17(b)) | ( 211,152) | ( 238,983) |
| **Carrying amount** | **23,515,800** | **23,107,523** |
| **Total carrying amount** | **25,266,762** | **24,318,550** |

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

Below is information on the credit quality of financial assets measured at amortised cost. For financing arrangements, the amounts in the table represent the gross carrying amounts

***(i) Cash and balances with Central Bank of Kenya***

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1 KShs '000** | **Stage 2 KShs '000** | **Stage 3 KShs '000** | **Total KShs '000** | **Stage 1 KShs '000** | **Stage 2 KShs '000** | **Stage 3 KShs '000** | **Total KShs '000** |
| Gross carrying amount | 3,055,802 | - | - | 3,055,802 | 2,685,188 | - | - | 2,685,188 |
| Loss allowance | ( 2,886) | | - | ( 2,886) | - | | - | - |
| **Carrying amount** | **3,052,916** | - | - | **3,052,916** | **2,685,188** | - | - | **2,685,188** |

***(ii) Deposits and balances due from banking institutions and investment securities***

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1 KShs '000** | **Stage 2 KShs '000** | **Stage 3 KShs '000** | **Total KShs '000** | **Stage 1 KShs '000** | **Stage 2 KShs '000** | **Stage 3 KShs '000** | **Total KShs '000** |
| Gross carrying amount | 14,224,426 | - | 50,000 | 14,274,426 | 12,830,285 | - | 50,000 | 12,880,285 |
| Loss allowance | ( 46,381) | | ( 1,324) | ( 47,705) | ( 30,747) | | ( 8,320) | ( 39,067) |
| **Carrying amount** | **14,178,045** | - | **48,676** | **14,226,721** | **12,799,538** | - | **41,680** | **12,841,218** |

Included in the Gross carrying amount are Deposits and balances due from banking institutions of KShs 13,394,107,000 (2023 – KShs 12,566,706,000) and Investment securities of KShs 880,319,000 (2023 – KShs 313,579,000); and included in Loss allowance are amounts relating to Deposit and balances due from banking institutions of KShs 46,682,000 (2023 – KShs 38,134,000) and Investment securities of KShs1,023,000 (2023 – KShs 933,241).

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

*(iii) Financing arrangements*

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 KShs '000 | Stage 2 KShs '000 | Stage 3 KShs '000 | Total KShs '000 | Stage 1 KShs '000 | Stage 2 KShs '000 | Stage 3 KShs '000 | Total KShs '000 |
| Gross carrying amount | 22,417,532 | 1,309,420 | 4,393,495 | 28,120,447 | 22,134,086 | 1,212,420 | 3,317,768 | 26,664,274 |
| Loss allowance | ( 83,363) | ( 105,226) | (2,642,267) | (2,830,856) | ( 102,594) | ( 115,477) | (2,106,741) | ( 2,324,812) |
| **Carrying amount** | **22,334,169** | **1,204,194** | **1,751,228** | **25,289,591** | **22,031,492** | **1,096,943** | **1,211,027** | **24,339,462** |

*(iv) Off balance sheet financial guarantees*

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 KShs '000 | Stage 2 KShs '000 | Stage 3 KShs '000 | Total KShs '000 | Stage 1 KShs '000 | Stage 2 KShs '000 | Stage 3 KShs '000 | Total KShs '000 |
| Gross carrying amount | 1,644,703 | 75,000 | 26,517 | 1,746,220 | 2,341,661 | 304,866 | 8,214 | 2,654,741 |
| Loss allowance | ( 7,571) | (13,050) | ( 265) | ( 20,886) | ( 5,386) | ( 14,735) | - | ( 20,121) |
| **Carrying amount** | **1,637,132** | **61,950** | **26,252** | **1,725,334** | **2,336,275** | **290,131** | **8,214** | **2,634,620** |

*(v) Commitments on financing arrangements*

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 KShs '000 | Stage 2 KShs '000 | Stage 3 KShs '000 | Total KShs '000 | Stage 1 KShs '000 | Stage 2 KShs '000 | Stage 3 KShs '000 | Total KShs '000 |
| Gross carrying amount | 349,640 | 559 | - | 350,199 | 280,766 | 775 | - | 281,541 |
| Loss allowance | ( 1,943) | - | - | ( 1,943) | ( 760) | ( 31) | - | ( 791) |
| **Carrying amount** | **347,697** | **559** | **-** | **348,256** | **280,006** | **744** | **-** | **280,750** |

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

**Financing arrangements with renegotiated terms**

Financing arrangements with renegotiated terms are financing arrangements that have been restructured due to deterioration in the customer's financial position and where the Bank has made concessions that it would not otherwise consider.

The table below shows the financing arrangements with renegotiated terms:

| | 2024<br>KShs'000 | 2023<br>KShs'000 |
|---|---|---|
| Gross unimpaired carrying amount | 1,198,742 | 1,699,631 |
| Impaired amount | 420,808 | 690,706 |
| Allowance for impairment | ( 40,330) | ( 42,988) |
| Impaired carrying amount | 380,478 | 647,718 |
| **Total carrying amount** | **1,579,220** | **2,347,349** |

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

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

As a result of increased inflation, local currency depreciation, and depleting purchasing power of the populace, businesses continue to experience harsh economic challenges and some face difficulties in meeting their payment obligations on their facilities. The Bank may accommodate the affected customers by extending their repayment tenures that are in line with their expected cashflows.

The gains or losses on restructured facilities has been assessed and considered not to be material. The Bank has tested its business strategy and resolved it remains relevant to create long-term sustainable value for our stakeholders, notwithstanding challenges caused by the impact of harsh economic realities and the need to restructure some facilities.

**Staging of financing assets**

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

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

**Staging of financing assets – continued**

Lifetime Expected Credit Losses (ECL) are the losses that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime Expected Credit Loss is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Financing assets that are credit impaired are referred to as 'Stage 3 financial instruments'.

**Impaired financing arrangements**

Impaired financing arrangements are financings for which the Bank determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the financing arrangement(s). These accounts, under Central Bank of Kenya Prudential Guidelines, are termed as non-performing loans.

At each reporting date, the Bank assesses whether financial assets are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

**Amounts arising from ECL**

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its financing arrangements portfolio. The allowance for impairment is a component of a specific loss component that relates to individually significant exposures, and a collective financing arrangements loss allowance established for homogenous assets in respect of losses that have been incurred but have not yet been identified on financing arrangements subject to individual assessment for impairment.

**Inputs, assumptions and techniques used for estimating impairment**

*Significant increase in credit risk*

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

— the remaining lifetime probability of default (PD) as at the reporting date; with
— the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

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

— quantitative test based on movement in PD;
— qualitative indicators; and
— a backstop of 30 days past due for all financing arrangements.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

**Inputs, assumptions and techniques used for estimating impairment – continued**

*Generating the term structure of PD*

The Bank collects performance and default information about its credit risk exposures analysed by the economic sectors of exposures and the level of default over a period of time. The Bank's exposures are in various sectors of the economy, which forms a major input in the determination of term structure of PD. Financing arrangements are analysed into the various economic sectors of manufacturing, building and construction, trade, energy, tourism and hotels, transport and communication, real estate and personal consumer, and uses these portfolios to identify PDs for the portfolio, which are then used in the computation of impairment for the various customers under each portfolio.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. PDs are modelled at portfolio level based on a transition matrix, by modelling the movement of financing arrangements from one classification (staging) to another classification. The movements in the financing arrangements for the various economic sector categories is based on the value of the financing arrangements.

The modelled PDs are based on 60-months' transition matrices as the best estimate for the next one year to reflect 'point in time' transition. Further, this was corroborated by the growing trend of default rates historically.

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the customer and the condition of the financing facility as at the reporting date. As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if it is overdue for more than 30 days, based on the Bank's quantitative modelling.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria. Such qualitative factors are based on its expert judgment and relevant historical experiences.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a financing arrangement have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms. The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before an exposure is in default and that the average time between the identification of a significant increase in credit risk and default appears reasonable.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

**Inputs, assumptions and techniques used for estimating impairment – continued**

*Definition of default*

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

- the customer is more than 90 days past due on any material credit obligation to the Bank;
- the customer is unlikely to pay their credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- it is becoming probable that the customer will restructure the asset as a result of bankruptcy due to the customer's inability to pay their credit obligations.

In assessing whether a customer is in default, the Bank considers indicators that are:

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

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.
The definition of default largely aligns with that applied by the Bank for regulatory purposes

*Incorporation of forward-looking information*

The Bank incorporates forward looking information into both the assessment of whether credit risk of a financial instrument has increased significantly since initial recognition and the measurement of ECL.

The Bank has performed historical analysis and identified the key economic variables impacting credit risk and ECL for each portfolio. These economic variables and their associated impact on probability of default (PD), exposure at default (EAD) and loss given default (LGD) vary by financial instrument.

Based on advice from the Assets and Liabilities Committee (ALCO) and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies such as the *Kenya National Bureau of Statistics (KNBS)* and the *Central Bank of Kenya (CBK)* and also supranational organisations such as the *International Monetary Fund (IMF)*, *World Bank* and selected private-sector and academic forecasters.

Forecasts of the base economic scenario and the possible scenarios have been prepared and the impact of these economic variables on the PD, EAD and LGD determined by performing statistical regression analysis to understand the impact the changes in these variables have had historically on default rates and on the components of LGD and EAD.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

**Inputs, assumptions and techniques used for estimating impairment – continued**

*Incorporation of forward-looking information – continued*

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

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

Various key economic variables are used in the computation of ECL. The economic variables were modelled for correlation with the Bank's non-performing financing arrangement ratios for each of the Bank's economic sector exposures.

The key macro-economic indicators include the Central Bank rate (CBR), term deposits rate, Gross Domestic Product (GDP), treasury bills rates (91-,182- and 364- day), public debt to GDP, savings deposit rate, reverse repo, lending rate and housing price index.

The correlation of the above factors with the Bank's non-performing financing arrangements ratio, (NPF%) was also used to determine whether these factors should be lagged. Linear correlations between the macroeconomic factors and the Bank's economic sector non-performing financing arrangements were individually tested. A normality test was done for each of the data inputs to ensure that each data input had a normal distribution curve.

The Bank's non-performing financing arrangements ratio (NPF%) was a reasonable approximation to the Bank's default risk. The correlation between the Bank's non-performing financing arrangements (NPF%) with the above macroeconomic factors was then inferred to the Bank's predicted probabilities of default.

Further, in determining the economic scenarios to be applied, each of the economic variable was adjusted either upside or downside using the historical standard deviation. In determining the likelihood of each of the three macroeconomic scenarios, a weighting was performed for each of the economic sectors.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets were developed based on analysing historical data over the past 3 to 5 years.

The Bank uses industry recognized models to estimate impact of macro-economic factors on historical observed default rates. In case the results of forecasted PDs are significantly different from expected default rates that may be observed for the forecasted economic conditions, conservative and discretionary overlays shall be used by the management after analysing the portfolio and the impact.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

**Inputs, assumptions and techniques used for estimating impairment – continued**

**Sensitivity analysis**

The Expected Credit Losses (ECL) is sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and how those scenarios are incorporated into the calculations of expected credit losses.

The additional loss allowance on financing arrangements assuming all the forward-looking scenarios of base case, upside and downside were weighted 100% instead of applying the scenario probability weighting would be as below;

| | 2024<br>KShs'000 | 2023<br>KShs'000 |
|---|---|---|
| Impairment loss on financial assets | 172,059 | 138,702 |

*Financing arrangements with renegotiated terms*

Financing arrangements with renegotiated terms are financing arrangements that have been restructured due to deterioration in the customer's financial position and where the Bank has made concessions that it would not otherwise consider.

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

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly is dependent on the quantitative and qualitative factors of the financing arrangement. As a general application, once the financing arrangement is restructured it remains in this category (stage) independent of satisfactory performance after restructuring. When modification results in derecognition, a new financing arrangement is recognised and allocated to the stage it was before restructuring took place.

The Bank renegotiates financing arrangements to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under the Bank's Credit policy, renegotiation is granted on a selective basis if the customer is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing arrangements covenants.

The renegotiation of terms is not by itself an indicator of significant increase in credit risk, but in addition, the short-term compliance with new terms of the financing arrangement does not necessarily indicate the reduction in credit risk. Other qualitative factors are taken into consideration alongside the renegotiation, to determine if there is significant increase in credit risk. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired or in default such that the loss allowance reverts to being measured at an amount equal to Stage 1.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

**Inputs, assumptions and techniques used for estimating impairment – continued**

**Sensitivity analysis – continued**

*Financing arrangements with renegotiated terms – continued*

ECLs were estimated based on a range of forecasted economic conditions as at 31 December 2023 and considering that the economic situation is continuously changing. The following represents the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs and highlights the significant changes during the year.

— Grouping of financial arrangements portfolio using exposures to various economic sectors, from the previous customer groupings of business units of corporate, SME and retail;
— Point –in-time PDs updated using latest available macro-economic factors forecasts which correlate with Bank's non-performing financing arrangements (%);
— Probability weights updated under the different economic sectors

*Measurement of ECL*

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

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor on the Forced Sale Value (FSV) of the collateral.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation.

The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

**Inputs, assumptions and techniques used for estimating impairment – continued**

**Sensitivity analysis – continued**

*Measurement of ECL – continued*

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any customer's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a financial arrangement commitment or guarantee.

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

— type of customer
— instrument type;
— collateral type;
— date of initial recognition;
— remaining term to maturity;

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

**Write-off policy**

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

**Collateral held and other enhancements**

The Bank holds collateral against financing arrangements to customers in the form of mortgage interests over property, registered securities over assets, and guarantees.

Estimates of fair value are based on the value of collateral assessed at the time of financing, and generally are not updated except when a financing is individually assessed as impaired.

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

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

*Measurement of ECL – continued*

**Collateral held and other enhancements – continued**

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

| **Fair values of collateral held:** | **2024 KShs'000** | **2023 KShs'000** |
|---|---|---|
| Impaired financing arrangements | 3,558,648 | 2,829,232 |
| Past due but not impaired financing arrangements | 1,844,064 | 1,305,038 |
| Not past due nor impaired financing arrangements | 26,246,193 | 21,892,718 |
| | **31,648,905** | **26,026,988** |

**Impairment allowances**

The following tables shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The amounts under financing arrangements include impairment for financial guarantees and unutilised financing arrangements.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

**Deposit and balances due from banking institutions and investment securities**

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 KShs '000 | Stage 2 KShs '000 | Stage 3 KShs '000 | Total KShs '000 | Stage 1 KShs '000 | Stage 2 KShs '000 | Stage 3 KShs '000 | Total KShs '000 |
| Balance at 1 January | 30,747 | - | 8,320 | 39,067 | 19,795 | - | 875,691 | 895,486 |
| Transfer to Stage 1 | - | - | - | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - | - | - | - |
| Net re-measurement of loss allowance | - | - | - | - | - | - | 1,429 | 1,429 |
| Write-offs | - | - | - | - | - | - | (868,800) | (868,800) |
| Provisions for impairment | 18,520 | - | - | 18,520 | 20,487 | | | 20,487 |
| Releases | - | - | (6,996) | ( 6,996) | ( 9,535) | - | - | ( 9,535) |
| **Balance at 31 December** | **49,267** | **-** | **1,324** | **50,591** | **30,747** | **-** | **8,320** | **39,067** |

Included in loss allowance are amounts relating to deposit and balances due from banking institutions of KShs 46,682,000 (2023 – KShs 38,134,000), Cash & Balances at Central Bank of Kenya of KShs 2,886,000 (2023 – KShs Nil) and Investment securities of KShs 1,023,000 (2023 – KShs 933,241).

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

**Financing arrangements to customers**

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 KShs'000 | Stage 2 KShs'000 | Stage 3 KShs '000 | Total KShs'000 | Stage 1 KShs'000 | Stage 2 KShs'000 | Stage 3 KShs '000 | Total KShs'000 |
| Balance at 1 January | 108,740 | 130,242 | 2,106,741 | 2,345,723 | 95,799 | 79,124 | 1,691,284 | 1,866,207 |
| Transfer to Stage 1 | 33,531 | (21,137) | ( 12,394) | - | 51,072 | ( 37,333) | ( 13,739) | - |
| Transfer to Stage 2 | ( 8,360) | 19,241 | ( 10,881) | - | ( 2,006) | 2,564 | ( 558) | - |
| Transfer to Stage 3 | ( 5,108) | (37,381) | 42,489 | - | ( 3,352) | ( 8,758) | 12,110 | - |
| Net re-measurement | (47,348) | 25,924 | 468,356 | 446,932 | ( 51,369) | 37,177 | 437,432 | 423,240 |
| New financial assets originated | 16,501 | 1,653 | 67,847 | 86,001 | 26,008 | 62,967 | 11,207 | 100,182 |
| Financial assets that have matured | 13,107 | ( 267) | ( 7,941) | 4,899 | ( 4,446) | ( 5,499) | ( 11,304) | ( 21,249) |
| Write-offs | (18,186) | - | ( 11,684) | ( 29,870) | ( 2,966) | - | ( 19,691) | ( 22,657) |
| Other movements | - | - | - | - | - | - | - | - |
| **Balance at 31 December** | **92,877** | **118,275** | **2,642,533** | **2,853,685** | **108,740** | **130,242** | **2,106,741** | **2,345,723** |

The analysis in the table above includes ECL provisions relating to off-balance sheet financial exposures as well as commitments on financing arrangements.

**Monitoring concentration risk**

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

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (continued)

**Monitoring concentration risk – continued**

| | KShs'000 | Percentage |
|---|---|---|
| **Concentration by Sector - 2024** | | |
| Manufacturing | 1,609,903 | 6% |
| Tourism, Restaurants & Hotels | 1,046,927 | 4% |
| Energy | 1,828,772 | 6% |
| Transport and communication | 3,011,346 | 11% |
| Real estate | 5,329,903 | 19% |
| Personal consumer | 6,821,151 | 24% |
| Wholesale and retail trade | 7,140,121 | 25% |
| Others | 1,332,324 | 5% |
| **Total gross financing arrangements** | **28,120,447** | **100%** |
| **Concentration by Sector - 2023** | | |
| Manufacturing | 1,227,137 | 5% |
| Tourism, Restaurants & Hotels | 1,213,131 | 5% |
| Energy | 1,985,186 | 7% |
| Transport and communication | 3,162,941 | 12% |
| Real estate | 3,927,017 | 15% |
| Personal consumer | 6,717,195 | 25% |
| Wholesale and retail trade | 7,032,018 | 26% |
| Others | 1,399,649 | 5% |
| **Total gross financing arrangements** | **26,664,274** | **100%** |

| **Other financial assets** | **2024 KShs'000** | **2023 KShs'000** |
|---|---|---|
| **Time deposits due from banking institutions under statutory management** | | |
| Impaired | 50,000 | 50,000 |
| Specific impairment losses | ( 1,324) | ( 8,320) |
| Carrying amount | 48,676 | 41,680 |
| Past due but not impaired | - | - |
| **Total carrying amount (Note 15(a))** | **48,676** | **41,680** |

A portion of time deposits with a banking institution placed under receivership was considered impaired and impairment provisions were made after considering the value of securities held by the Bank against the deposits. The Bank holds a lien over treasury bonds of KShs 50,000,000 (2023 – KShs 50,000,000), and the face value of the bonds is payable to the Bank upon maturity. The fair value of the collateral held as at 31 December 2024 is KShs 48,676,000 (2023 – KShs 41,680,000).

| **Neither past due nor impaired** | **2024 KShs'000** | **2023 KShs'000** |
|---|---|---|
| Balances with the Central Bank of Kenya | 1,992,098 | 1,816,691 |
| Deposits and balances due from banking institutions and investment securities (Note 15(a)) | 13,297,726 | 12,485,959 |
| Other assets excluding prepayments | 685,896 | 744,347 |
| | **15,975,720** | **15,046,997** |

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with Shari'ah rules, regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance/takaful where this is effective.

### (c) Liquidity risk

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

**Management of liquidity risk**

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

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely deposits and balances due from banking institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units are met through short-term financing arrangements from Treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Liquidity risk (continued)

**Residual contractual maturities of financial liabilities at 31 December 2024 and 2023**

The table below analyses financial liabilities into relevant maturities based on the remaining period at year end to the contractual maturity date:

| 31 December 2024: | Up to 1 month KShs'000 | 1 – 3 months KShs'000 | 3 - 12 months KShs'000 | Over 12 months KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Deposits from customers | 26,116,273 | 6,029,506 | 2,752,568 | 925,245 | 35,823,592 |
| Other liabilities | 551,004 | 20,606 | - | - | 571,610 |
| Lease liabilities | - | - | 14,406 | 306,797 | 321,203 |
| **Total liabilities** | **26,667,277** | **6,050,112** | **2,766,974** | **1,232,042** | **36,716,405** |

| 31 December 2023: | Up to 1 month KShs'000 | 1 – 3 months KShs'000 | 3 - 12 months KShs'000 | Over 12 months KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Deposits from customers | 25,544,009 | 4,410,967 | 3,805,167 | 302,472 | 34,062,615 |
| Other liabilities | 382,791 | - | - | - | 382,791 |
| Lease liabilities | - | 3,581 | 8,041 | 293,067 | 304,689 |
| **Total liabilities** | **25,926,800** | **4,414,548** | **3,813,208** | **595,539** | **34,750,095** |

**Exposure to liquidity risk**

A key measure of liquidity risk is the liquidity ratio which is a ratio of net liquid assets to deposit liabilities.

Net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. Deposit liabilities comprise deposits from customers and other liabilities that have matured or maturing within 91 days.

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

| | 2024 | 2023 |
|---|---|---|
| At close of the year | 48% | 46% |
| Average for the year | 47% | 47% |
| Maximum for the year | 50% | 50% |
| Minimum for the year | 45% | 44% |

The Bank did not have material impact on its liquidity in the year under review. The management of the Bank has enhanced monitoring of liquidity and funding requirements with the objective of availing more sources of funding as and when necessary to maintain adequate liquidity position at a reasonable cost of funding.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Liquidity risk (continued)

The Bank also continues to enhance its liquidity stress testing by improving stress scenarios in line with evolving market conditions.

### (d) Market risk

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

Overall authority for market risk is vested in ALCO. Risk Management department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

The Bank is primarily exposed to currency risk. Due to the nature of the Bank's current products, the exposure to any other market risk is minimal. Due to the limited exposure of the Bank's balance sheet to market risk, there was no adverse impact on the Bank resulting from changes in market prices in the year under review.

*Currency risk*

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

The Bank's currency risk is managed within Central Bank of Kenya exposure guideline of 10% of core capital. Management monitors foreign currency exposure on a daily basis.

The tables below analyse the currencies to which the Bank is exposed to:

| **31 December 2024:** | **USD KShs'000** | **GBP KShs'000** | **EURO KShs'000** | **BHD KShs'000** | **Other KShs'000** | **Total KShs'000** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with Central Bank of Kenya | 1,013,289 | 23,493 | 27,493 | - | 1,711 | 1,065,986 |
| Deposits and balances due from banking institutions and investment securities | 4,515,177 | 64,222 | 110,471 | 880,319 | 137,859 | 5,708,048 |
| Financing arrangements | 3,387,790 | - | - | - | - | 3,387,790 |
| Other assets | ( 475) | - | - | - | - | ( 475) |
| **Total assets** | **8,915,781** | **87,715** | **137,964** | **880,319** | **139,570** | **10,161,349** |
| **Liabilities** | | | | | | |
| Deposits from customers | 8,051,636 | 42,599 | 105,665 | - | 34,568 | 8,234,468 |
| Other liabilities | 143,327 | 2,808 | 1,603 | - | - | 147,738 |
| Financing liabilities | - | - | - | - | - | - |
| **Total liabilities** | **8,194,963** | **45,407** | **107,268** | **-** | **34,568** | **8,382,206** |
| **Overall net position** | **720,818** | **42,308** | **30,696** | **880,319** | **105,002** | **1,779,143** |

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (d) Market risk (continued)

*Currency risk – continued*

| 31 December 2023: | USD KShs'000 | GBP KShs'000 | EURO KShs'000 | BHD KShs'000 | Other KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with Central Bank of Kenya | 643,238 | 24,939 | 54,802 | - | 1,230 | 724,209 |
| Deposits and balances due from banking institutions and investment securities | 2,782,695 | 41,519 | 166,836 | 313,579 | (193,405) | 3,111,224 |
| Financing arrangements | 4,243,375 | - | - | - | - | 4,243,375 |
| Other assets | 2,487 | - | - | - | - | 2,487 |
| **Total assets** | **7,671,795** | **66,458** | **221,638** | **313,579** | **(192,175)** | **8,081,295** |
| **Liabilities** | | | | | | |
| Deposits from customers | 6,892,710 | 54,414 | 187,261 | - | 6,628 | 7,141,013 |
| Other liabilities | 52,886 | 4,058 | 2,048 | - | 1 | 58,993 |
| Financing liabilities | - | - | - | - | - | - |
| **Total liabilities** | **6,945,596** | **58,472** | **189,309** | **-** | **6,629** | **7,200,006** |
| **Overall net position** | **726,199** | **7,986** | **32,329** | **313,579** | **(198,804)** | **881,289** |

The following significant exchange rates were applied during the year:

| | Closing | | Average | |
|---|---|---|---|---|
| | 2024 KShs | 2023 KShs | 2024 KShs | 2023 KShs |
| USD | 129.35 | 155.00 | 136.84 | 139.85 |
| GBP | 162.10 | 197.17 | 171.53 | 173.98 |
| EUR | 134.38 | 171.39 | 144.98 | 151.23 |
| BHD | 342.92 | 411.44 | 377.18 | 324.31 |

**Sensitivity analysis**

A 10 percent strengthening of the Kenya shillings against the following currencies would have increased profit or loss by amounts shown below. This analysis assumes that all other variables, in particular profit rates, remain constant.

The analysis is performed on the same basis for both 2024 and 2023.

| | Profit (loss) before and after tax | | | |
|---|---|---|---|---|
| | 2024 Before tax KShs'000 | 2024 After tax KShs'000 | 2023 Before tax KShs'000 | 2023 After tax KShs'000 |
| USD | 72,082 | 50,457 | 72,620 | 50,834 |
| GBP | 4,231 | 2,962 | 799 | 560 |
| EUR | 3,070 | 2,149 | 3,233 | 2,264 |
| BHD | 88,032 | 61,622 | 31,358 | 21,951 |
| Other | 10,500 | 7,350 | (19,880) | (13,916) |

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (e) Settlement risk

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

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring process described earlier.

### (f) Capital management

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

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

(a) Maintain a minimum capital of KShs 1,000 million (2023 – KShs 1,000 million).
(b) Maintain a core capital of not less than 8.0% (2023 – 8.0%) of total deposit liabilities.
(c) Maintain a minimum core capital to risk weighted assets including off-balance sheet assets of 10.5% (2023 – 10.5%) and
(d) Maintain a ratio of total capital to risk weighted assets including off-balance sheet assets of not less than 14.5% (2023 – 14.5%).

The Bank is compliant with all the above requirements.

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

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

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

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

Market risk weighted assets is computed using a standardised approach based on the foreign exchange exposure as at 31 December each year.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (f) Capital management (continued)

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

— Core capital (Tier 1), which includes ordinary share capital, share premium, and retained earnings.
— Supplementary capital (Tier 2), which includes statutory credit risk reserve, subordinated debt not exceeding 50% of core capital, and any other approved reserves.

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

| | 2024<br>KShs'000 | 2023<br>KShs'000 |
|---|---|---|
| **Core capital (Tier 1)** | | |
| Share capital | 366,324 | 366,324 |
| Share premium | 2,282,112 | 2,282,112 |
| Retained earnings | 5,550,997 | 4,171,035 |
| Non-qualifying deferred tax asset | ( 43,917) | - |
| | **8,155,516** | **6,819,471** |
| **Supplementary capital (Tier 2)** | | |
| Subordinated financing liabilities | - | - |
| Qualifying statutory credit risk reserve | - | 28,430 |
| **Total capital** | **8,155,516** | **6,847,901** |
| **Risk weighted assets** | | |
| On-balance sheet | 28,398,328 | 26,691,839 |
| Off-balance sheet | 2,917,895 | 2,500,106 |
| **Total credit risk weighted assets** | **31,316,223** | **29,191,945** |
| Operational risk weighted assets | 6,998,499 | 5,718,589 |
| Market risk weighted assets | 252,847 | 224,605 |
| **Total risk weighted assets** | **38,567,569** | **35,135,139** |
| **Total deposit liabilities** | **35,823,592** | **34,062,615** |

| **Capital ratios** | **2024** | **2023** |
|---|---|---|
| Core capital/total risk weighted assets (CBK minimum 10.5%) (2023 – 10.5 %) | 21.1% | 19.4% |
| Core capital/total deposit liabilities (CBK minimum 8.0%) (2023 – 8.0%) | 22.8% | 20.0% |
| Total capital/total risk weighted assets (CBK minimum 14.5%) (2023 – 14.5%) | 21.1% | 19.5% |

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (g) Climate related risks

Presently, climate change is becoming an increasingly important issue for financial institutions, regulators, investors, and clients. The Bank remains committed to addressing the climate crisis by supporting the transition to a sustainable, low-carbon economy that balances society's environmental, social, and economic needs.

Climate-related risks have a potential negative impact on the Bank arising from climate change. These risks have an impact on the principal risk categories of credit risk, liquidity risk, market risk and operational risk discussed above, but due to their pervasive nature have been identified and managed by the Bank on an overall basis.

The Bank distinguishes between physical and transition risks. Physical risks arise as the result of acute weather events such as hurricanes, floods and wildfires, and longer-term shifts in climate-related patterns, such as sustained higher temperatures, heat waves, droughts and rising sea levels. Transition risks arise as a result of measures taken to mitigate the effects of climate change and transition to a low-carbon economy-e.g. changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand.

The Bank is in the process of developing bank-wide policies, processes and controls to incorporate climate-related risks in the management of principal risk-categories. This will include a climate-related risk framework for:

— Identifying risk factors and assessing their potential impact on the Bank's separate financial statements;
— Allocating responsibilities for managing each identified risk factor.

The Bank is, in addition to the above, implementing the Central Bank of Kenya Guidance on climate-related risk management road-map.

## 6. USE OF ESTIMATES AND JUDGEMENTS

The Directors are responsible for selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates.

**Key sources of estimation uncertainty and judgements**

### (a) Allowance for credit losses

Assets accounted for at amortised cost and fair value through other comprehensive income are evaluated for impairment on a basis described in accounting policy 4(h).

The Bank recognises loss allowance at an amount equal to either 12-month expected credit losses (ECLs) or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

For credit exposures where there have not been significant increases in credit risk since initial recognition, an entity is required to provide for 12-month ECLs. These are classified as Stage 1 assets.

## 6. USE OF ESTIMATES AND JUDGEMENTS (Continued)

**Key sources of estimation uncertainty and judgements (continued)**

**(a) Allowance for credit losses – continued**

For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime ECLs. These are classified as Stage 2 assets.

For credit exposures that are credit impaired and in default, similar to stage 2 assets, a loss allowance is required for lifetime ECLs however the probability of default for these assets is presumed to be 100% less any determined recovery and cure rate. These are classified as Stage 3 assets.

**(b) Taxes**

Determining income tax provision involves judgement on the tax treatment of certain transactions. Deferred tax assets are recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgements as to the probability of tax losses being available for offset at a later date.

**(c) Leases**

When measuring lease liabilities for all leased assets, the Bank has discounted lease liabilities using its incremental borrowing rate of 13% for 2024 (2023 – 13%).

## 7. FINANCIAL ASSETS AND LIABILITIES

**Accounting classifications and fair values**

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

— Level 1: Unadjusted quoted prices in active markets.
— Level 2: Observable data from less active markets or similar instruments.
— Level 3: Inputs not based on observable market data, including entity-specific data.

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

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

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

Disclosure of fair value is not required if the carrying amount approximates fair value or if fair value cannot be reliably ascertained.

## 7. FINANCIAL ASSETS AND LIABILITIES (Continued)

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

| As at 31 December 2024: | Carrying value and amortized cost KShs'000 | Fair value | | | |
|---|---|---|---|---|---|
| | | Level 1 KShs'000 | Level 2 KShs'000 | Level 3 KShs'000 | Total KShs'000 |
| **Assets** | | | | | |
| Cash and balances with Central Bank of Kenya | 3,052,916 | - | - | 3,052,916 | 3,052,916 |
| Deposits and balances due from banking institutions and | | | | | |
| Investment securities | 14,226,721 | - | - | 14,226,721 | 14,226,721 |
| Financing arrangements | 25,266,762 | - | - | 25,266,762 | 25,266,762 |
| Other assets excluding prepayments | 685,896 | - | - | 685,896 | 685,896 |
| **Total assets** | **43,232,295** | - | - | **43,232,295** | **43,232,295** |

Included in the Gross carrying amount are Deposits and balances due from banking institutions of KShs 13,346,402,000 (2023 – KShs 12,527,639,000) and Investment securities of KShs 880,319,000 (2023 – KShs 313,579,000).

| As at 31 December 2024: | Carrying value and amortized cost KShs'000 | Fair value | | | |
|---|---|---|---|---|---|
| | | Level 1 KShs'000 | Level 2 KShs'000 | Level 3 KShs'000 | Total KShs'000 |
| **Liabilities** | | | | | |
| Deposits from customers | 35,823,592 | | | 35,823,592 | 35,823,592 |
| Other liabilities | 323,216 | - | - | 323,216 | 323,216 |
| **Total liabilities** | **36,146,808** | - | - | **36,146,808** | **36,146,808** |

## 7. FINANCIAL ASSETS AND LIABILITIES (Continued)

| As at 31 December 2023: | Carrying value and amortized cost KShs'000 | Fair value | | | |
|---|---|---|---|---|---|
| | | Level 1 KShs'000 | Level 2 KShs'000 | Level 3 KShs'000 | Total KShs'000 |
| **Assets** | | | | | |
| Cash and balances with Central Bank of Kenya | 2,685,188 | - | - | 2,685,188 | 2,685,188 |
| Deposits and balances due from banking institutions and | | | | | |
| Investment securities | 12,841,218 | - | - | 12,841,218 | 12,841,218 |
| Financing arrangements | 24,318,550 | - | - | 24,318,550 | 24,318,550 |
| Other assets excluding prepayments | 744,346 | - | - | 744,346 | 744,346 |
| **Total assets** | **40,589,302** | **-** | **-** | **40,589,302** | **40,589,302** |

| As at 31 December 2023: | Carrying value and amortized cost KShs'000 | Fair value | | | |
|---|---|---|---|---|---|
| | | Level 1 KShs'000 | Level 2 KShs'000 | Level 3 KShs'000 | Total KShs'000 |
| **Liabilities** | | | | | |
| Deposits from customers | 34,062,615 | - | - | 34,062,615 | 34,062,615 |
| Other liabilities | 382,791 | - | - | 382,791 | 382,791 |
| **Total liabilities** | **34,445,406** | **-** | **-** | **34,445,406** | **34,445,406** |

## 8. INCOME FROM FINANCING AND INVESTING ACTIVITIES

| | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Income from financing arrangements | 3,428,827 | 2,750,154 |
| Income from investing assets – placements | 1,454,875 | 1,204,823 |
| Income from investing assets – Sukuk | 34,111 | 10,115 |
| | **4,917,813** | **3,965,092** |

Included in income from investing activities from placements is income derived from placements under Tawarruq arrangements made with Islamic windows of conventional banks as well as conventional banks.

## 9. (a) INCOME PAID TO DEPOSITORS

| | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Time deposits | 877,248 | 560,133 |
| Savings deposits | 38,849 | 39,708 |
| Interbank deposits | 3,171 | 761 |
| | **919,268** | **600,602** |

## (b) INCOME PAID FOR FINANCING LIABILITIES

| | | |
|---|---|---|
| Finance cost on lease liabilities (Note 30(c)) | **42,173** | **37,511** |

## 10. (a) NET FEE AND COMMISSION INCOME

| | | |
|---|---|---|
| **Fee and commission income** | | |
| Commissions | 555,057 | 545,843 |
| Service fees | 50,597 | 31,693 |
| | **605,654** | **577,536** |
| **Fee and commission expense** | | |
| Interbank transaction fees and other fees | ( 15,880) | ( 15,749) |
| **Net fee and commission income** | **589,774** | **561,787** |

Fees and commission income mainly arise from contracts with customers in the scope of IFRS 15. Transaction fees for processing financing arrangements are recognised when the transaction takes place while the service fees are based on fixed fees published by the Bank and are recognised when the service is provided.

## (b) Other income

| | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Loss on disposal of property and equipment | ( 227) | (271) |
| Gain on disposal of right of use assets | 28,307 | 586 |
| | **28,080** | **315** |

## 11. (a) STAFF EXPENSES

| | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Salaries and allowances | 1,061,319 | 1,047,063 |
| Staff pension | 78,006 | 69,831 |
| Medical | 54,931 | 56,524 |
| Training | 10,950 | 21,964 |
| Other staff expenses | 37,924 | 29,797 |
| | **1,243,130** | **1,225,179** |

Other staff expenses relate to staff subscriptions, recruitment costs and related expenses. The total number of employees at year-end for the Bank was 335 (permanent – 314, contract – 21) (2023 – 329 (permanent – 298, contract – 31).

## (b) OTHER OPERATING EXPENSES

| | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Occupancy expenses | 84,976 | 66,886 |
| Advertising and marketing expenses | 57,008 | 32,616 |
| Security expenses | 46,138 | 54,877 |
| Information, communication and technology costs | 210,390 | 154,377 |
| Donations | 17,840 | 15,002 |
| Deposit protection fund | 52,671 | 49,200 |
| Other expenses | 460,239 | 437,911 |
| | **929,262** | **810,869** |

Other expenses comprise *inter alia* directors fees, insurance costs, SWIFT and inter-connection costs, legal and professional fees, sharia'h advisory costs, travel and entertainment and other general costs.

## 12. PROFIT BEFORE TAX

| Profit before tax is arrived at after charging/(crediting): | 2024 KShs '000 | 2023 KShs '000 |
|---|---|---|
| Depreciation (Note 21) | 170,362 | 141,016 |
| Amortisation (Note 20) | 57,955 | 56,522 |
| Directors' emoluments – fees (Note 29(f)) | 69,240 | 48,039 |
| – other (Note 29(f)) | 64,570 | 68,991 |
| Auditors' remuneration (inclusive of VAT at 16%) | 6,849 | 6,522 |
| Loss/(gain) on disposal of property and equipment | 227 | (2,225) |

## 13. INCOME TAX EXPENSE

### (a) Income tax expense

| | | |
|---|---|---|
| **Current tax:** | | |
| Current income tax expense at 30% (2023 – 30%) on the profit for the year as adjusted for tax purposes | 801,287 | 675,719 |
| Prior year under/(over) provision | - | - |
| | 801,287 | 675,719 |
| **Deferred tax:** | | |
| Charge during the year (Note 22) | (186,320) | (198,670) |
| Prior year over provision (Note 22) | - | 12,540 |
| | (186,320) | (186,130) |
| **Income tax expense** | **614,967** | **489,589** |

## 13. INCOME TAX EXPENSE (Continued)

### (b) Reconciliation of tax expense

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

| | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Accounting profit before taxation | 1,966,499 | 1,529,485 |
| Computed tax using the applicable Corporation tax rate at 30% (2023 – 30%) | 589,950 | 458,846 |
| Net effect on non-deductible costs | 25,017 | 18,203 |
| Prior year over provision – deferred tax (Note 22) | - | 12,540 |
| **Income tax expense** | 614,967 | 489,589 |

### (c) Tax (recoverable)/payable

| | | |
|---|---|---|
| At 1 January | 307,891 | ( 367,357) |
| Charge for the year | 801,287 | 675,719 |
| Paid during the year | (1,242,679) | ( 471) |
| | ( 133,501) | 307,891 |
| Comprising: | | |
| **Tax (recoverable)/payable** | ( 133,501) | 307,891 |

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

| | 2024 KShs'000 | 2023 KShs '000 |
|---|---|---|
| Cash in hand | 1,060,818 | 868,497 |
| Balances with Central Bank of Kenya: | | |
| Restricted balances (cash reserve ratio) | 1,460,714 | 1,406,161 |
| Unrestricted balances with Central Bank of Kenya | 534,270 | 410,530 |
| Less Impairment provisions | ( 2,886) | - |
| | 3,052,916 | 2,685,188 |

By law, commercial banks are required to maintain prescribed cash balances with Central Bank of Kenya as a cash ratio requirement which is non-yield bearing. This balance is determined on the basis of outstanding customer deposits at the end of the preceding month and is maintained over a cycle of one month. As at 31 December 2024, the cash ratio requirement was 4.25% (2023 – 4.25%) of customer deposits. These funds are however available for use by the Bank in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% of the requirement and provided that the overall average in the month is at least 4.25%.

## 15. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

| (a) Classification | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Time deposits | 12,091,708 | 11,518,257 |
| Impairment losses | ( 46,381) | ( 30,747) |
| Current accounts | 1,252,399 | 998,449 |
| | **13,297,726** | **12,485,959** |
| Time deposits due from banking institutions under Statutory management | 50,000 | 50,000 |
| Impairment losses | ( 1,324) | ( 8,320) |
| | 48,676 | 41,680 |
| | **13,346,402** | **12,527,639** |
| Maturing within: | | |
| Less than 3 months | 7,999,110 | 7,266,104 |
| Over 3 months | 4,092,598 | 4,252,153 |
| | **12,091,708** | **11,518,257** |

**(b) Impairment losses on financial assets and investment securities**

| 2024: | Stage 3 impairment losses KShs'000 | Stage 1 and 2 impairment provision KShs'000 | Total KShs'000 |
|---|---|---|---|
| At 1 January 2024 | 8,320 | 30,747 | 39,067 |
| Provisions for impairment | - | 18,520 | 18,520 |
| Release | (6,996) | - | (6,996) |
| Charge for the year | (6,996) | 18,520 | 11,524 |
| Write-offs during the year | - | - | - |
| **At 31 December 2024** | **1,324** | **49,267** | **50,591** |

| 2023: | Stage 3 impairment losses KShs'000 | Stage 1 and 2 impairment provision KShs'000 | Total KShs'000 |
|---|---|---|---|
| At 1 January 2023 | 875,691 | 19,795 | 895,486 |
| Provisions for impairment | 1,429 | 20,487 | 21,916 |
| Release | - | ( 9,535) | ( 9,535) |
| Charge for the year | 1,429 | 10,952 | 12,381 |
| Write-offs during the year | (868,800) | - | (868,800) |
| **At 31 December 2023** | **8,320** | **30,747** | **39,067** |

Time deposits represent commodity Murabaha contracts (a subset of Murabaha) used as a liquidity management tool. In these contracts, a commodity is sold on a deferred basis with a mark-up. The effective profit rate on time deposits as at 31 December 2024 was 11.73% (2023 – 12.79%).

## 15. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS (Continued)

### (c) Amounts forming part of cash and cash equivalents

For purposes of the cash flow statement, the following balances constitute cash and cash equivalents.

| | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Time deposits maturing within 3 months | 12,091,708 | 11,518,257 |
| Impairment losses | ( 46,381) | ( 30,747) |
| Current accounts | 1,252,399 | 998,449 |
| | **13,297,726** | **12,485,959** |

## 16. INVESTMENT SECURITIES

These comprise of investments in sovereign sukuks issued by the Central Bank of Bahrain of KShs 880,319,000 (2023 – KShs 313,579,000). The related impairment amount was KShs 1,023,000 (2023-KShs 933,000) incorporated in note 15(b). Effective profit rate on the investments as at 31 December 2024 was 5.81% (2023 – 6.40%).

## 17. FINANCING ARRANGEMENTS

### (a) Classification

| | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Murabaha | 10,768,589 | 11,601,887 |
| Diminishing Musharaka | 17,351,858 | 15,062,387 |
| Gross financing arrangements | 28,120,447 | 26,664,274 |
| Impairment losses (Note 17(b)) | ( 2,853,685) | ( 2,345,724) |
| **Net financing arrangements** | **25,266,762** | **24,318,550** |
| Repayable within: | | |
| Less than 3 months | 5,536,071 | 6,105,844 |
| 3 months to 1 year | 2,646,982 | 1,971,347 |
| 1 to 5 years | 7,251,640 | 6,306,899 |
| Over 5 years | 12,685,754 | 12,280,184 |
| | **28,120,447** | **26,664,274** |

### (b) Impairment losses on financing arrangements

| 2024: | Stage 3 impairment losses KShs '000 | Stage 1 and 2 impairment provision KShs '000 | Total KShs '000 |
|---|---|---|---|
| At 1 January 2024 | 2,106,741 | 238,982 | 2,345,723 |
| Provisions for impairment | 555,417 | ( 22,484) | 532,933 |
| Releases from matured facilities | ( 7,941) | 12,840 | 4,899 |
| Charge for the year | 547,476 | ( 9,644) | 537,832 |
| Written off during the year | ( 11,684) | ( 18,186) | ( 29,870) |
| **At 31 December 2024** | **2,642,533** | **211,152** | **2,853,685** |

## 17. FINANCING ARRANGEMENTS (Continued)

### (b) Impairment losses on financing arrangements (continued)

| 2023: | Stage 3 impairment losses KShs '000 | Stage 1 and 2 impairment provision KShs '000 | Total KShs '000 |
|---|---|---|---|
| At 1 January 2023 | 1,691,284 | 174,923 | 1,866,207 |
| Provisions for impairment | 446,452 | 76,970 | 523,422 |
| Releases from matured facilities | ( 11,304) | ( 9,945) | ( 21,249) |
| Charge for the year | 435,148 | 67,025 | 502,173 |
| Written off during the year | ( 19,691) | ( 2,965) | ( 22,656) |
| **At 31 December 2023** | 2,106,741 | 238,983 | 2,345,724 |

### (c) Total impairment charge for the year

| | 2024 KShs'000 | 2023 KShs '000 |
|---|---|---|
| Impairment charge on financing arrangements | 537,832 | 502,173 |
| Impairment charge on financial assets (Note 15(b)) | 11,524 | 12,381 |
| | **549,356** | **514,554** |

## 18. OTHER ASSETS

| | | |
|---|---|---|
| Items in the course of collection | 54,945 | 82,283 |
| Prepayments | 145,473 | 154,179 |
| Refundable deposits | 34,180 | 25,627 |
| Other receivables | 475,103 | 636,437 |
| | **709,701** | **898,526** |

Loss allowances on other assets are deemed immaterial and have not been included in the balances.

## 19. INVESTMENT IN SUBSIDIARIES

| | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| GAB Takaful Insurance Agency Limited | 1,000 | 1,000 |
| GAB Tamweel Limited | 100 | - |
| | **1,100** | **1,000** |

GAB Takaful Insurance Agency Limited and GAB Tamweel Limited are wholly owned subsidiaries of the Bank incorporated in Kenya.

GAB Takaful Insurance Agency Limited was incorporated to offer Bancassurance services but is currently dormant while GAB Tamweel Limited offers Tawarruq-financing brokerage services.

The financial statements of the subsidiaries have been considered immaterial to the Bank and are therefore not consolidated.

## 19. INVESTMENT IN SUBSIDIARIES (continued)

A summary of financial information for the subsidiary as of 31 December 2024 and 31 December 2023 is set out as below:

| | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Total assets | 3,816 | 2,529 |
| Total liabilities | 22,050 | 21,485 |
| Net assets | (18,234) | (18,956) |
| Profit/(loss) before income tax | 114 | ( 118) |

## 20. INTANGIBLE ASSETS

| 2024: | Computer software KShs'000 | Capital work-in-progress KShs'000 | Total KShs'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2024 | 631,331 | 61,557 | 692,888 |
| Additions during the year | 5,429 | 5,171 | 10,600 |
| Transfers from work in progress | 22,790 | (22,790) | - |
| Transfers from Property and Equipment (Note 21) | 11,959 | - | 11,959 |
| At 31 December 2024 | 671,509 | 43,938 | 715,447 |
| **Amortisation** | | | |
| At 1 January 2024 | 503,483 | - | 503,483 |
| Charge for the year | 57,955 | - | 57,955 |
| At 31 December 2024 | 561,438 | - | 561,438 |
| **Carrying amount** | | | |
| **At 31 December 2024** | **110,071** | **43,938** | **154,009** |

| 2023: | Computer software KShs'000 | Capital work-in-progress KShs'000 | Total KShs'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2023 | 613,848 | 11,888 | 625,736 |
| Additions during the year | 15,076 | 54,572 | 69,648 |
| Transfers from work in progress | 4,903 | ( 4,903) | - |
| Disposals during the year | ( 2,496) | - | ( 2,496) |
| At 31 December 2023 | 631,331 | 61,557 | 692,888 |
| **Amortisation** | | | |
| At 1 January 2023 | 446,961 | - | 446,961 |
| Charge for the year | 56,522 | - | 56,522 |
| At 31 December 2023 | 503,483 | - | 503,483 |
| **Carrying amount** | | | |
| **At 31 December 2023** | **127,848** | **61,557** | **189,405** |

Intangible assets comprise capitalised computer software costs which are amortised over an estimated useful life of five years.

Capital work in progress relates to computer software licences and customisation charges for software acquired but not yet commissioned for use.

## 21. PROPERTY AND EQUIPMENT

| 2024: | Leasehold improvements & right- of- use lease assets KShs'000 | Computers, equipment, furniture & fittings KShs'000 | Motor vehicles KShs'000 | Capital work in progress KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2024 | 851,309 | 772,824 | 23,257 | 19,414 | 1,666,804 |
| Additions during the year | 192,796 | 65,446 | 476 | 3,166 | 261,884 |
| Transfers from work in progress | 41 | 6,455 | - | ( 6,496) | - |
| Transfer to intangible assets | - | - | - | (11,959) | ( 11,959) |
| Disposals | ( 128) | ( 10,608) | ( 347) | - | ( 11,083) |
| De-recognition of right of use assets | (162,880) | - | - | - | ( 162,880) |
| At 31 December 2024 | 881,138 | 834,117 | 23,386 | 4,125 | 1,742,766 |
| **Depreciation** | | | | | |
| At 1 January 2024 | 530,802 | 609,487 | 12,261 | - | 1,152,550 |
| Charge for the year | 93,959 | 72,041 | 4,362 | - | 170,362 |
| Disposals | ( 128) | ( 10,089) | ( 347) | - | ( 10,564) |
| De-recognition of right of use lease assets | ( 76,851) | - | - | - | ( 76,851) |
| At 31 December 2024 | 547,782 | 671,439 | 16,276 | - | 1,235,497 |
| **Carrying amount At 31 December 2024** | **333,356** | **162,678** | **7,110** | **4,125** | **507,269** |
| **2023:** | | | | | |
| **Cost** | | | | | |
| At 1 January 2023 | 828,610 | 744,047 | 33,886 | 4,720 | 1,611,263 |
| Additions during the year | 93,571 | 68,384 | - | 14,728 | 176,683 |
| Transfers from work in progress | 34 | - | - | ( 34) | - |
| Disposals | ( 56,297) | ( 39,607) | (10,629) | - | ( 106,533) |
| De-recognition of right of use assets | ( 10,176) | - | - | - | ( 10,176) |
| Re-measurement of right of use assets | ( 4,433) | - | - | - | ( 4,433) |
| At 31 December 2023 | 851,309 | 772,824 | 23,257 | 19,414 | 1,666,804 |
| **Depreciation** | | | | | |
| At 1 January 2023 | 519,614 | 580,096 | 18,629 | - | 1,118,339 |
| Charge for the year | 69,839 | 66,916 | 4,261 | - | 141,016 |
| Disposals | ( 57,877) | ( 37,525) | (10,629) | - | ( 106,031) |
| Re-measurement of right of use lease assets | ( 774) | - | - | - | ( 774) |
| At 31 December 2023 | 530,802 | 609,487 | 12,261 | - | 1,152,550 |
| **Carrying amount At 31 December 2023** | **320,507** | **163,337** | **10,996** | **19,414** | **514,254** |

## 21. PROPERTY AND EQUIPMENT (Continued)

Included in property and equipment as at 31 December 2024 is right-of-use lease assets of KShs 419,771,000 including additions of KShs 184,178,000 in 2024 (2023 – KShs 244,929,000 with additions of KShs 63,530,000) which relates to leases of the Bank's branches and office premises. The associated depreciation on the right-of-use assets in 2024 is KShs 76,936,000 (2023 – KShs 56,889,000) as indicated under Note 30.

Included in property and equipment as at 31 December 2024 are assets with gross value of KShs 1,303,226,000 (2023 – KShs 1,114,132,000) which are fully depreciated but still in use. The notional depreciation charge on these assets would have been 277,863,000 (2023 – KShs 238,147,000).

Capital work-in-progress mainly relates to business-premises security installations and other projects on-going as at the end of the year.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2023 – Nil).

## 22. DEFERRED TAX ASSET

The deferred tax asset at 31 December 2024 and 31 December 2023 is attributable to the following:

| | Recognised through retained earnings | Recognised in profit or loss | | |
|---|---|---|---|---|
| **2024:** | **1 January 2024 KShs'000** | **Prior year overprovision KShs'000** | **Current year adjustment KShs'000** | **31 December 2024 KShs'000** |
| **Asset:** | | | | |
| Property and equipment | 45,446 | - | ( 4,700) | 40,746 |
| Provisions | 614,166 | - | 192,430 | 806,596 |
| Leases | 17,928 | - | ( 1,410) | 16,518 |
| | **677,540** | **-** | **186,320** | **863,860** |

| | | | | |
|---|---|---|---|---|
| **2023:** | **1 January 2023 KShs'000** | **Prior year overprovision KShs'000** | **Current year adjustment KShs'000** | **31 December 2023 KShs'000** |
| Asset: | | | | |
| Property and equipment | 56,823 | (12,540) | 1,163 | 45,446 |
| Provisions | 419,858 | - | 194,308 | 614,166 |
| Leases | 14,729 | - | 3,199 | 17,928 |
| | **491,410** | **(12,540)** | **198,670** | **677,540** |

## 23. DEPOSITS FROM CUSTOMERS

| | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Current accounts | 24,380,035 | 23,721,126 |
| Savings deposits | 1,362,290 | 1,399,061 |
| Time deposits | 9,707,319 | 8,518,606 |
| Margin deposits | 373,948 | 423,822 |
| | **35,823,592** | **34,062,615** |
| **Repayable:** | | |
| On demand | 26,116,273 | 25,544,009 |
| Within 3 months or less | 6,029,506 | 4,410,967 |
| After 3 months | 3,677,813 | 4,107,639 |
| | **35,823,592** | **34,062,615** |

## 24. OTHER LIABILITIES

| | | |
|---|---|---|
| Lease liabilities (Note 30(b)) | 321,203 | 304,689 |
| Outstanding bankers' cheques | 20,606 | 34,079 |
| Welfare and charitable fund (Note 25) | 1,947 | - |
| Accruals | 302,610 | 261,274 |
| Other* | 246,448 | 87,438 |
| | **892,814** | **687,480** |

Included in other liabilities as at 31 December 2024 is lease liabilities of KShs 321,203,000 (2023 – KShs 304,689,000) as indicated under Note 30(b). In the Statement of Cash Flows the changes in Other Liabilities excludes the movement in Lease Liabilities.

*Other liabilities comprise mostly of statutory deductions and agency taxes, dividends payable and money transfer balances.

## 25. WELFARE AND CHARITABLE FUND

| | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| At 1 January | - | 873 |
| Additions during the year (donations) (Note 11(b)) | 17,840 | 15,002 |
| Donated to charitable activities | (15,893) | (15,875) |
| **At 31 December** | **1,947** | **-** |

Transfers to welfare and charitable fund represents income deemed to be non-Shari'ah compliant either because it is from a non-Shari'ah compliant source or the underlying transactions had been found to be in breach of Shari'ah principles. Charges for non-timely payment by customers are another source of transfers. Transfers to welfare and charitable fund are channelled through Gulf African Bank Foundation, with the oversight of the Shari'ah Supervisory Board.

## 26. SHARE CAPITAL AND RESERVES

### (a) Share capital

| Authorised | Number of ordinary shares | Value KShs '000 |
|---|---|---|
| At 1 January and 31 December 2023 and 2024 | | |
| Ordinary shares of KShs 20 each | | 20,000,000 |

| Number of ordinary shares issued and fully paid | 2024 | 2023 |
|---|---|---|
| At 1 January and 31 December | 18,316,193 | 18,316,193 |
| **Value of ordinary shares issued and fully paid** | **KShs'000** | **KShs '000** |
| At 1 January and 31 December | 366,324 | 366,324 |

All ordinary shares rank equally with regard to the Bank's residual assets. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank.

### (b) Share premium

These reserves arose when the shares of the Bank were issued at a price higher than the nominal (par) value. These will be applied towards capital in future.

| | 2024 KShs'000 | 2023 KShs '000 |
|---|---|---|
| At 31 December | 2,282,112 | 2,282,112 |

### (c) Statutory credit risk reserve

The statutory credit risk reserve was KShs Nil (2023 – KShs 28,430,000). The amount represents an appropriation from retained earnings to comply with Central Bank of Kenya's Prudential Guidelines on impairment of financing assets. It represents the excess financing arrangement provision as computed in accordance with Central Bank of Kenya's Prudential Guidelines over the impairment arrived at in accordance with IFRS Accounting Standards.

Where impairment in accordance with IFRS 9 is equal or higher than the impairment as per the Prudential Guidelines of the Central Bank of Kenya, there is no appropriation of this reserve.

## 27. NOTE TO THE CASH FLOW STATEMENT

| | 2024 KShs'000 | 2023 KShs '000 |
|---|---|---|
| **Analysis of the balance of cash and cash equivalent** | | |
| Cash balances (Note 14) | 1,060,818 | 868,497 |
| Unrestricted balances with the Central Bank of Kenya (Note 14) | 534,270 | 410,530 |
| Deposits and balances due from banking institutions | 9,205,128 | 8,233,806 |
| | 10,800,216 | 9,512,833 |

For purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months to maturity from the date of acquisition.

## 28. OFF-BALANCE SHEET CONTINGENCIES AND COMMITMENTS

| (a) Contingent liabilities | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Guarantees | 1,391,592 | 1,398,953 |
| Letters of credit | 576,425 | 263,121 |
| Bills for collection | 1,142,529 | 1,082,667 |
| Foreign exchange spot and forward contracts | 2,773,975 | 1,196,221 |
| | **5,884,521** | **3,940,962** |
| ECL provisions relating to off-balance sheet items | **20,886** | **20,121** |

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

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

*Bills for collection* are undertakings by the Bank to collect money from their customers for payment to a third party. They do not bestow any obligations to the Bank.

*Foreign exchange forward contracts* are arrangements to buy or sell a specified quantity of foreign currency, usually on a specified future date or at an agreed rate on a Shari'ah compliant basis.

| (b) Commitments | 2024 KShs'000 | 2023 KShs '000 |
|---|---|---|
| Undrawn commitments | 350,199 | 281,541 |
| Purchase of property and equipment | 59,911 | 10,996 |
| ECL provisions relating to undrawn commitments | **1,943** | **791** |

Undrawn commitments relate to agreements to finance a customer in future, subject to certain conditions, and are normally for a fixed period.

## 29. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions. In the normal course of business, a number of banking transactions, such as financing arrangements, deposits and foreign currency transactions are entered into with related parties' i.e. key management, directors, their associates and companies controlled by directors.

Below are details of transactions with related parties for the Bank.

### (a) Financing arrangements to companies associated with directors

As at reporting date, there were no outstanding financial arrangements to directors and companies associated with directors (2023 – KShs Nil). There was no profit earned during the year on financing arrangements granted to companies associated with directors (2023 – Nil).

Balances associated with the Executive Director are reported under Key Management.

Off balance sheet financing outstanding with companies associated with directors amounted to KShs 3,000,000 (2023 – KShs 3,000,000).

## 29. RELATED PARTY TRANSACTIONS (Continued)

| (b) Financing arrangements – Key Management | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| At 1 January | 71,840 | 68,756 |
| Advanced during the year | 14,046 | 31,867 |
| Repaid during the year | (13,609) | (28,783) |
| **At 31 December** | **72,277** | **71,840** |

Profit earned on financing arrangements to key management amounted to KShs 4,697,000 (2023 – KShs 5,201,000).

Included in financing arrangements for key management is financing arrangements relating to the Management director. These financing arrangements to key management are performing and are adequately secured.

| (c) Deposits – Directors and their Associates | 2024 KShs '000 | 2023 KShs'000 |
|---|---|---|
| At 1 January | 1,148,136 | 1,202,242 |
| Deposits during the year | 2,971,085 | 2,163,270 |
| Withdrawals during the year | (3,088,144) | (2,217,376) |
| **At 31 December** | **1,031,077** | **1,148,136** |
| Profit expense paid to directors and their associates during the year | **16,033** | **18,236** |

| (d) Deposits – key management | | |
|---|---|---|
| At 1 January | 96,787 | 39,618 |
| Deposits during the year | 651,652 | 816,286 |
| Withdrawals during the year | ( 637,414) | ( 759,117) |
| **At 31 December** | **111,025** | **96,787** |
| Profit expense paid to staff during the year | **844** | **1,537** |

**(e) Key management personnel compensation**

| | | |
|---|---|---|
| Salaries and related benefits | **192,143** | **205,456** |

Key Management Personnel represents the Senior Management Team (SMT). Related benefits include Performance bonuses and Gratuity payments

All outstanding balances with key management personnel are performing. No stage 2 or stage 3 impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the reporting date.

| (f) Directors' remuneration | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Fees for services as directors | 69,240 | 48,039 |
| Other remuneration* | 64,570 | 68,991 |

* Other remuneration includes salaries for Executive Directors.

## 30. 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.

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the profit rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Bank has discounted lease payments using incremental borrowing rate of 13%.

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 21:

| | 2024<br>KShs'000 | 2023<br>KShs'000 |
|---|---|---|
| Balance at 1 January | 244,929 | 246,668 |
| Additions (recognition) | 184,178 | 63,530 |
| Depreciation charge for the year | ( 76,936) | ( 56,889) |
| De-recognition | ( 86,029) | ( 3,947) |
| Re-measurement (Note 21) | - | ( 4,433) |
| **At 31 December** | **266,142** | **244,929** |

### (b) Lease liabilities

Included in other liabilities (Note 24) are lease liabilities amounting to KShs 321,203,000 (2023 – KShs 304,689,000).

| **Lease liabilities movement** | 2024<br>KShs'000 | 2023<br>KShs'000 |
|---|---|---|
| Balance at 1 January | 304,689 | 295,764 |
| Profit expense | 42,173 | 37,511 |
| Lease payments | (112,351) | ( 83,151) |
| New lease | 184,178 | 63,530 |
| Re-measurement | 7,639 | ( 3,660) |
| De-recognition of terminated leases | (105,125) | ( 5,305) |
| **At 31 December** | **321,203** | **304,689** |

## 30. LEASES (Continued)

| (c) Amount recognised in profit or loss | 2024 KShs'000 | 2023 KShs'000 |
|---|---|---|
| Finance cost on lease liabilities (Note 9(b)) | 42,173 | 37,511 |
| Expenses relating to low value assets and other related expenses | 47,110 | 38,312 |
| **At 31 December** | **89,283** | **75,823** |
| **(d) Amount recognised in the statement of cash flows** | | |
| Total cash outflow for leases | **70,178** | **45,640** |

## 31. SHARE-BASED PAYMENTS ARRANGEMENTS

On 18 September 2012, the Bank established an Employee Share Ownership Plan (ESOP) for the purpose of facilitating employees to participate in the growth of the Bank, attracting and retaining skilled staff and to reward and recognise employees for their contribution to the Bank. The plan became operational in the second quarter of 2014.

The Bank's Employee Share Ownership Plan (ESOP) is established as a trust. Employees are entitled to purchase units in the ESOP Trust at a price determined by the Board of Directors having regard to the value of a share on the book value of shares as determined by the audited or unaudited published financial statements of the previous quarter. Each unit represents an ordinary share in the Bank.

All permanent employees of the Bank aged 19 years and above are eligible to participate in the Employee Share Ownership Plan. The employees are given an option to buy a fixed number of Units, at the end of each quarter equivalent to 10% of their previous quarter's salary. Additionally, where an employee's annual performance rating is within the top 5% of all staff in the Bank, they are awarded options to purchase additional Units. Units are made available for purchase at the end of every quarter. Each unit is granted on a conditional basis and vests after 3 years. At the vesting date, employees must sell the units back to the Trust.

Employees may redeem their units after each third anniversary of the date of grant of the Units through sale of units. If an employee ceases to be an employee of the Bank before the agreed Vesting date, the Trustees shall purchase the units at the price at which they were offered. Any options that have not been exercised prior to ceasing employment lapse. Where the reason for cessation of employment is due to death or bankruptcy, the redemption amount is paid to the employee's dependents or personal representatives or any other person entitled under the law.

Movement in the number of units held for the employees under the Employee Share Ownership Plan is as follows:

| | 2024 | | 2023 | |
|---|---|---|---|---|
| | Number of shares | Weighted average Exercise price KShs | Number of shares | Weighted average Exercise price KShs |
| Outstanding at 1 January | 311,416 | 385.9 | 396,075 | 306.82 |
| Exercised | ( 37,586) | - | ( 84,794) | - |
| Redemption during the year | 31,339 | - | 135 | - |
| **Outstanding at 31 December** | **305,169** | | **311,416** | |
| **Exercisable at 31 December** | **305,169** | | **311,416** | |

## 31. SHARE-BASED PAYMENTS ARRANGEMENTS (Continued)

The shares outstanding at 31 December 2024 had an exercise price of KShs 444.34 (2023 – KShs 385.90).

The share price is determined as the book value of the Bank's share at the date the option is exercised. The book value is determined in each quarter of every year. Management has determined that the book value estimates the fair value of the options. The gains on redemption of units has been accounted for in the profit and loss account.

## 32. PROPOSED DIVIDEND AND DIVIDEND PER SHARE

No dividend is proposed for the year ending 31 December 2024 (2023 – KShs 219,794,000 at KShs 12.0 per share).

## 33. ASSETS PLEDGED AS SECURITY

As at 31 December 2024, there were no assets held as lien with commercial banks (2023 – Nil). As at the same date, the Bank was holding Treasury bonds amounting to KShs 551,200,000 (2023 – KShs 616,700,000) as lien from other commercial banks and customers.

## 34. EVENTS AFTER THE REPORTING PERIOD

In 2024, the Bank was subject to a tax examination by the Kenya Revenue Authority (KRA), which led to a tax assessment. The Bank disputed this assessment and initiated the Alternative Dispute Resolution (ADR) process with KRA to address the disagreement. On 28 February 2025, the Bank and KRA reached an ADR agreement, in which they mutually agreed on the principal tax, penalties, and interest amounts owed. However, the Bank's financial statements have not been updated to reflect the assessed amounts, as they are considered immaterial.

# GULF AFRICAN BANK LIMITED

## APPENDIX TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (UNAUDITED)

**Zakah information**

The Bank informs the shareholders of their obligation to pay Zakah. Zakah has not been recognised in the statement of profit or loss and other comprehensive income as an expense.

The total Zakah payable by the shareholders for 2024 has been determined by the Shari'ah Supervisory Board as KShs 10.61 (2023 – KShs 8.95) per share. Under FAS 9, Zakah payable for the year ended 2024 was calculated at 2.577% (2023 – 2.577%) of the Zakah base of KShs 7,538,155,000 (2023 – KShs 6,364,036,000) which was determined on the Net Invested Funds method.