Consolidated Bank
Growing with you

ANNUAL REPORT 2024

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

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CONSOLIDATED BANK OF KENYA LIMITED AND SUBSIDIARY
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FOR THE YEAR ENDED 31 DECEMBER 2024

CORPORATE INFORMATION

DIRECTORS:
Current
Hon. Muriuki Njagagua -Chairman
Samuel Muturi - Chief Executive Officer
Cabinet Secretary, National Treasury
Managing Trustee – NSSF
Timothy Tiampati
Kenneth Gatheru Gatiithi
Florence A. Oluoch (Appointed on 8th November 2024)
Harun K. Mosop (Appointed on 8 November 2024)
Dr. Jedidah Mwiti (Term ended on 5 October 2024)
Dr. Tom Kahigu (Term ended on 27 October 2024)

AUDIT COMMITTEE:
Dr. Jedidah Mwiti – Chairperson (Term ended 5th October2024)
Timothy Tiampati
Kenneth Gatheru Gatiithi
Jane Njogu Representing CS, National Treasury

STAFF COMMITTEE:
Kenneth Gatheru Gatiithi- Chairman
Dr. Jedidah Mwiti (Term ended 5th October2024)
Timothy Tiampati
Dr. Tom Kahigu - (Term ended 27th October 2024)
Samuel Muturi

Ag. COMPANY SECRETARY:
Albert Anjichi
Certified Public Secretary (Kenya)
P. O. Box 51133 – 00200, Nairobi

AUDITORS:

Principal auditor:
The Auditor General
Anniversary Towers
P. O. Box 30084 – 00100, Nairobi

Delegated auditor:
RSM EASTERN AFRICA LLP
Certified Public Accountants
1st Floor, Pacis Centre
Slip Road.off Waiyaki Way,Westlands
P. O. Box 349 – 00606, Nairobi

LEGAL ADVISERS:

Hamilton Harrison & Mathews
Delta Suites, Waiyaki Way
P.O. Box 30333 - 00100 Nairobi, Kenya

RISK AND COMPLIANCE COMMITTEE:
Dr. Tom Kahigu –Chairman - (Term ended 27th October 2024)
Dr. Jedidah Mwiti - (Term ended 5th October 2024)
Kenneth Gatheru Gatiithi
Samuel Muturi

FINANCE AND CREDIT COMMITTEE:
Timothy Tiampati-Chairman
Dr. Tom Kahigu - (Term ended 27th October 2024)
Jane Njogu
Samuel Muturi

REGISTERED OFFICE:
Consolidated Bank House
23 Koinange Street
P. O. Box 51133 - 00200, Nairobi

CORRESPONDENT BANKS:
Crown Agents Bank
Quadrant House
The quadrant Sutton Surey
Sm2 5AS United Kingdom

BMCE Bank International
Serrano 59 - 280006
Madrid
Italy

ODDO BHF AktiengesellShaft
Bockenheiner Landstr.10-60323Frankfurt am Main
Germany

LEGAL ADVISERS :
Mboya Wangongú & Waiyaki Advocates Chambers Maji Mazuri Road – Off James Gichuru Road
P. O. Box 74041 - 00200, Nairobi, Kenya

CONSO BANCASSURANCE INTERMEDIARY:
Charles Njagagua
Jane Njogu
Kenneth Gatheru Gatiithi
Samuel Muturi

Hon. Charles Muriuki Njagagua
Chairman of the Board

Hon. Charles Muriuki Njagagua was appointed as the Chairman of the Board of Directors for Consolidated Bank on 10th February 2023.

He is an experienced Advocate and Legal Practitioner with over 25 years' experience. Hon. Njagagua's leadership skills are demonstrated by his position as the Managing Director of Muriuki Njagagua & Company Advocates.

He served as a Member of the National Assembly for two terms, where he chaired various committees including Parliamentary Caucuses.

Hon. Njagagua is a Certified Public Secretary and a Member of the Institute of Certified Secretaries (ICS).

He is pursuing a Masters of Law (LLM) Degree from the University of Nairobi. He holds a post graduate Diploma in Law from the Kenya School of Law and a Bachelor of Law (LLB, Hons) Degree from the University of Nairobi.

Mr. Sam Muturi
Chief Executive Officer

Mr. Sam Muturi joined Consolidated Bank as the Chief Executive Officer on 11th October 2022.

He joined the Bank from Kenya Commercial Bank where he was the Director, Mortgage Business. He has over 25 years' working experience in Banking primarily obtained at Kenya Commercial Bank, where he worked in various positions within the Bank and gained valuable experience in Leadership & Supervision, Credit Analysis & Management, Policy and Compliance, Risk Management, Strategic Management and Customer/Relationship Management. He has immense knowledge and skills in growing a Bank's Corporate/MSME/Retail/Personal Banking, Diaspora/Money Transfer Business, Retail & Commercial Mortgage Business, Project Management and Mortgage business.

He holds a Masters of Business Administration Degree from the University of Nairobi and a Bachelors of Art Degree in Economics and Business Studies from Kenyatta University. He also holds a Practitioner Diploma in Executive Coaching rom the Academy of Executive Coaching (United Kingdom) and has had training on Mastering Emotional Intelligence, High Performance Coaching and Practical Project Management Principles, Inside MasterCard Operations and Visa Europe Training on Business Management amongst others.

Hon. CPA John Mbadi Ng'ongo

EGH - Cabinet Secretary, The National Treasury
Institutional Director

Hon. John Mbadi is the Cabinet Secretary (CS) for The National Treasury and Economic Planning. Before his appointment, Hon. Mbadi had an extensive career in public service, most recently serving as a nominated Member of Parliament (MP) and the Chairperson of the Public Accounts Committee in the National Assembly.

Hon. John Mbadi has a rich history in legislative leadership, having served as the elected MP for Suba South Constituency, Suba Constituency, and Gwassi Constituency. His experience extends to roles such as Assistant Minister in the Office of the Prime Minister and Leader of Minority in the National Assembly. Throughout his parliamentary tenure, he was a member of numerous key committees, including the House Business Committee, Liaison Committee, Budget and Appropriations Committee, Selection Committee, Appointments Committee, Public Accounts Committee, Public Investments Committee, Constitutional Implementation Committee, the Ad Hoc Committee on the Cost of Living and the Defence and Foreign Relations Committee. Notably, he was also a member of the Legislative Taskforce responsible for drafting the Public Finance Management Act of 2012.

In addition to Hon. John Mbadi's political and legislative accomplishments, he is a seasoned finance professional with 28 years of experience. He has held the position of Accountant at the University of Nairobi and served as the Chair of Medair East Africa. He holds a Bachelor of Commerce degree with a specialization in Accounting from the University of Nairobi and is a registered member of the Institute of Certified Public Accountants of Kenya (ICPAK). His professional affiliations extend to the Architectural Association of Kenya (AAK), the Institute of Quantity Surveyors of Kenya and the Chartered Institute of Arbitration.

Hon. John Mbadi's contributions have been recognized with honours such as the Chief of the Order of the Burning Spear (CBS) and Elder of the Order of the Golden Heart of Kenya (EGH). His skills span across planning, budgeting, financial analysis, accounting, economics and community development, complemented by strong leadership, effective communication and interpersonal skills. His areas of interest include politics, reading, and soccer.

Mr. David Koross

Managing Trustee/CEO – NSSF
Institutional Director

Mr. Koross is the Managing Trustee/CEO of the National Social Security Fund.

He has a wealth of experience in Marketing, Financial/Investment Management and Reporting, Customer Management, Pension Scheme Regulation and Administration.

He holds a Master's Degree in Public Policy Management from Strathmore Business School and a Bachelor of Arts Degree in Economics from the University of Nairobi.

He previously served as the Chief Executive Officer of Lapfund and as a Director of the NG-CDF Board.

BOARD OF DIRECTORS

Hon. Kenneth Gatheru Gatiithi
Board Member

Hon. Kenneth Gatheru Gatiithi was appointed to the Board of Consolidated Bank on 8th December 2023.

He served as a Member of County Assembly Mukurwe-ini Central ward for 5 years where he chaired the Water and Natural Resources Committee.

He has over 10 years in Business Operations, Project Management, Donor Relationships and Community Development.

He holds a Bachelor Degree in Business Administration from Swiss Management Academy; a Diploma in Public Relations and a Diploma in Community Development both from the Nairobi Institute of Business Studies.

Mr. Timothy Kotoine Tiampati
Board Member

Timothy Kotoine Tiampati was appointed to the Board of Consolidated Bank on 8th December 2023.

Mr Tiampati is a Kenyan with over thirty (34) years of experience in the financial sector and has served on various boards of both private and public entities. He possesses vast experience in Investment Management, Credit, Financial Management and Risk Management. He has also developed pertinent skills in Stakeholder Management, Stakeholder Relations and Corporate Governance.

He holds a Master of Science in Economics Degree from Odessa Institute of National Economics. Mr. Tiampati has also attended numerous professional courses under the auspice of the Association of Africa Development Finance Institutions (AADFI).

Mr. Albert B.A Anjichi
Ag. Head of Legal & Company Secretary

Albert B.A Anjichi joined Consolidated Bank in 2016.

Albert is an accomplished Advocate of the High Court of Kenya, Company Secretary, and Governance expert with over fifteen (15) years of professional experience in the legal practice specializing in commercial law, labour relations, dispute resolution, securities, legal and regulatory compliance, litigation and corporate governance. Prior to joining the Bank, Albert worked with the ABSA Bank of Kenya Limited and Manani Lilan & Mwetich Company Advocates.

Albert holds a Master of Business Management Degree from the United States International University (USIU), a Bachelor of Law (LL.B) Degree from Moi University, a post-graduate Diploma in Law from Kenya School of Law, and is a Certified Company Secretary (CPS-Kenya).

Albert is an active member of the Institute of Certified Secretaries of Kenya (ICS-K) and the Law Society of Kenya (LSK) and has a Certification in Legal Audit & Compliance and Environmental, Social and Governance (ESG).

BOARD OF DIRECTORS

Ms. Florence Auma Oluoch

Board Member

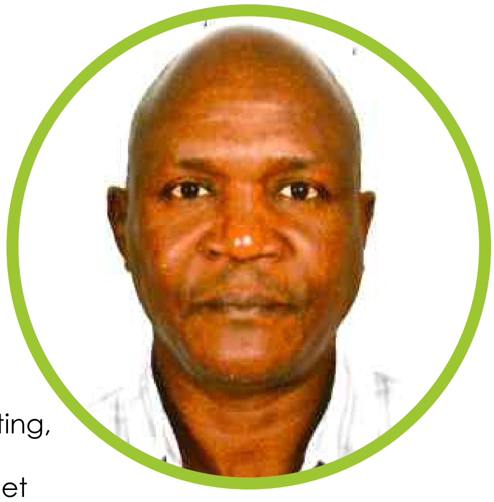
Ms. Florence Auma was appointed to the Board of Consolidated Bank on 8th November 2024.

Ms. Florence brings on board organizational skills, problem solving skills, relationship management and interpersonal skills. In addition, she has acquired the following competencies over the years; Forward Planning and Strategic Thinking, Policy Formulation and Conflict Management

Ms. Florence is the Managing Director of the Woolsacck Holdings Limited, which is involved in the Hospitality and Real Estate sectors. She is a business professional with extensive experience in the Financial and Insurance Industry, having worked as a financial advisor with Britam Insurance for twenty (20) years.

Ms. Florence successfully chaired the Strategic and Technical Committee, as well as the Audit Committee during her tenure as a Board Member at the Kenya Water Towers Agency and spearheaded the enhancement of Woolsacck Suites in Nyali into an internationally and locally searched block of furnished apartments at the coastal town of Mombasa.

Ms. Florence holds a Bachelor of Business Management (Marketing Management) Degree from Mount Kenya University, a Diploma in Sales and Marketing from the University of Nairobi and a Certificate of Proficiency from the College of Insurance, Mombasa.



Mr. Harun Kipkemei Mosop

Board Member

Mr. Mosop was appointed to the Board of Consolidated Bank on 8th November 2024.

Mr. Mosop has over 25 years of experience in financial accounting and reporting, auditing, forensic audits and investigations, tax consultancy and treasury management, credit control, strategy formulation and implementation, budget implementation and monitoring, risk analysis and assessment and company secretarial practice.

Mr. Mosop is the Managing Partner at Mosop & Associates, CPAK. Prior to this role he served as the Principal Accountant, Deputy Internal Audit Manager and Accountant at ICDC Nairobi and as Ag. Manager (on secondment) of subsidiary companies namely Funguo Registrars Limited and Funguo Investments Limited.

Mr. Mosop holds a Bachelor of Commerce Degree in Accounting from the University of Nairobi and is currently pursuing a Master's degree in Tax and Customs Admin from Moi University and Kenya School of Revenue Administration-KESRA (Course work and Thesis and defense stage).

Mr. Mosop is a certified Public Accountant (CPA-K) and a Certified Public Secretary of Kenya, (CPSK) and member of both professional bodies. He is also an Accredited Corporate Governance Auditor.

Trade Finance Products

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- Performance Bonds
- Advance Payment Guarantee
- Payment Guarantee
- LPO / LSO Financing
- Invoice Discounting
- Letters of Credit

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SENIOR MANAGEMENT

Mr. Sam Muturi
Chief Executive Officer

Mr. Michael Maingi Mbuva
Principal Officer, Conso Bancassurance Intermediary Ltd

Ms. Rose N. Mukoba
Ag. Head of Human Resources

Mr. Albert B.A Anjichi
Ag. Head of Legal & Company Secretary

Mr. George Kipkoech Rutto
Head of Internal Audit

Mr. Edward Nthuli
Head of Operations and Central Processing

SENIOR MANAGEMENT

Mr. Fred Kipchirchir Ronoh
Ag. Head of Finance and Administration

Mrs. Josephine Munyiva Mutunga
Head of Corporate Banking and Ag. Head of Retail & SME

Mr. Joshua Kagia
Head of Treasury

Mr. Joel K. Busienei
Head of ICT

Mrs. Jullie Oyuyo Odadi
Ag. Head of Credit and Manager, Product Development and Innovation

Mr. Harrison Mativo Muthoka
Ag. Head of Risk and Compliance

Hon. Charles Muriuki Njagagua

Chairman of the Board

Chairman's Statement

On behalf of the Board of Directors of Consolidated Bank, I am pleased to present the Annual Report and Financial Statements for the year ended 31st December 2024. 2024 marked the second year of executing our ambitious five-year strategic plan themed on *turnaround and growth*.

The Board is pleased with the progress made by the management team in strategy implementation, which ensured that the company remained on a growth trajectory. This is reflected in the improved financial performance year on year as well as the non-financial performance recorded in the year. This is despite a complex operating environment with addressable risks and opportunities in which the Bank operated in.

Operating environment

During the year, the country faced economic pressures such as declining purchasing power, social tensions and downgrade of our sovereign credit rating by several rating agencies driven by debt sustainability concerns. However, by the close of the year, we saw a stabilisation in key economic indicators such as interest rates, inflation, and foreign exchange rates. This stabilisation has helped create a more balanced environment for businesses to operate in.

The banking sector continued to face significant shifts driven by rapid technological advancements, evolving regulations, increase in cybersecurity challenges and greater competition from non-traditional financial service providers. During the year, the Central Bank of Kenya (CBK) through the Monetary Policy Committee increased the benchmark lending rate to 13%, a high last seen 22 years ago. However, this was subsequently lowered to the current level of 10% as at April 2025 which has helped to ease interest rates in the market. In the year we saw increased defaults of loans due to the increased interest rates, a squeeze in the payslips of salaried employees due to increased statutory deductions such as SHIF and retirement savings.

Financial Performance

In the face of a challenging operating environment, the Group achieved impressive results, with the Group's Balance Sheet growing by an impressive 15% to stand at Ksh.17.52 billion a level the Bank last achieved in the year 2012 compared to Ksh. 15.22 billion in 2023.On the investments side and in line with our strategy, we continued to optimally allocate capital which saw a growth in Government securities by 69% to close at Kshs 6.4 billion with net advances declining by 5% to close at Ksh.8.5 billion due to reduced customer borrowing appetite as a result high interest rates coupled with tough operating environment. Our customers entrusted us with over Ksh.11.7 billion in deposits which was an increase of 10% from the previous year's Ksh.10.6 billion.

Hon. Charles Muriuki Njagagua

Chairman of the Board

Chairman's Statement

As a result, we saw a 15% increase in revenue, which reached Ksh. 2.4 billion and with prudent operational cost management the operating expenses reduced by 10%. Overall, we managed to cut our Group losses before tax by 66% from the Ksh.399 million in 2023 to Ksh.135 million a demonstration of our remarkable progress in implementation of our turnaround and growth.

Board Changes

In October 2024, Harun Mosop and Florence Oluoch joined the Board. We welcome them on board and look forward to their contribution in the coming years, given their wealth of knowledge and experience across various sectors.

During the year, we bid farewell to Dr. Jedidah Karwitha Mwiti and Dr. Tom Muchiru whose terms ended in October 2023. As a Bank we want to thank them for their contributions and commitment since joining the Bank and wish them well.

Acknowledgments

I would like to take this opportunity to express my sincere gratitude to all our stakeholders for their ongoing support. I take this opportunity to appreciate my colleagues on the Board for their invaluable insights and unwavering dedication, which have played a pivotal role in driving our achievements throughout the year. To our employees, your dedication and resilience are at the core of our success. To our Customers, your loyalty and feedback inspire us to continually improve.

To our Shareholders, your trust and investment empower us to pursue our strategic objectives with enthusiasm. I am certain with your support, the future is bright and the Bank will be able to achieve all its strategic objectives.

Thank you

Hon. Muriuki Njagagua
Chairman

Mr. Sam Muturi
Chief Executive Officer

CEO's Statement

Dear Shareholders,

I would like to welcome you to the 33rd Annual General Meeting of Consolidated Bank and to express our heartfelt appreciation for the support that you-our shareholders and customers have accorded the Bank despite the challenging macro-economic environment the Bank operated in. The year 2024 marked the second year of our strategic execution of our 5-year strategic plan, showcasing remarkable success in both financial and non-financial metrics as we progressed towards turnaround and growth of the Bank.

The Economic and Banking Environment

Throughout the year 2024, we navigated a persistently complex operating macroeconomic environment exacerbated by high interest rates, shrinking consumer wallet, social unrest, volatility characterised by climate-related disasters, the recent sovereign risk downgrades and increased cost of doing business. The Bank demonstrated resilience achieving significant milestones in our turn-around strategy.

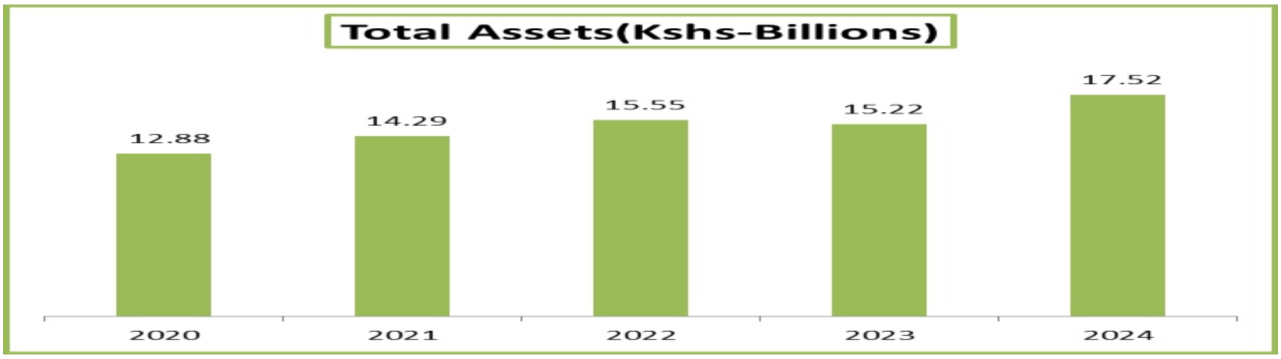
Kenya's economy recorded the slowest growth in the last four years with the Real Gross Domestic Product (GDP) growing by 4.7 % in 2024 compared to a growth of 5.7 % in 2023. This slowdown was primarily attributed to a subdued performance in the agriculture sector, low demand for credit due to the high interest rates and credit tightening. The GDP is projected to grow by 5.7% in 2025 anchored by growth in the agriculture sector, credit sector growth, exchange rate stability, diaspora inflows and the expected narrowed current account deficit.

The Monetary Policy Committee (MPC) in 2024 had adopted a tight monetary policy stance, raising the Central Bank Rate (CBR) to a 22 year high of 13.00% in February 2024 and maintaining it at that rate up to July 2024. The Central Bank of Kenya lowered the CBR by a cumulative 175 basis points to 11.25% in December 2024 from 13.00% in July 2024 and further by 125 bps to 10.00% in March 2025, signalling a gradual easing of monetary policy. This reduction in CBR is expected to support credit growth and ease financial pressures on borrowers.

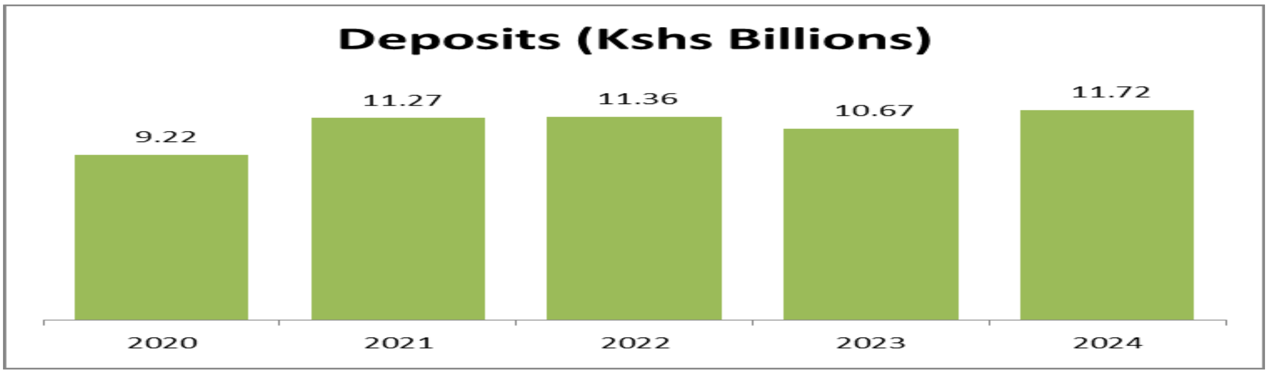
Bank Performance Highlights

Amid the tough operating environment, Consolidated Bank continued to make strides towards achieving our strategic pillar of *turnaround and growth* through diversified revenue sources and growth of the Balance sheet as highlighted:

Sustained Balance Sheet momentum			
In Ksh. Millions	**2023**	**2024**	**Change**
Customer deposits	10,665,362	11,715,930	10%
Loan Book	8,943,138	8,513,879	-5%
Investment in government securities	3,769,458	6,374,515	69%
Total Assets	**15,220,314**	**17,521,756**	**15%**



The Group reported an impressive 15% growth in total assets to close at Kshs. 17.5 billion with growth being recorded in the total earning assets. Customer deposits grew by 10% in 2025 to stand at Ksh.11.72 billion. This was as a result of our sustained deposit mobilization through focus on key segments, strong customer value propositions, institutional and Public sector markets. This enabled the Bank to accelerate growth and maintained adequate liquidity ratio adhering to the prudential guidelines and our risk management framework. We continue to invest and upgrade our digital channels to enable our customers to access various banking services without having to visit branches.



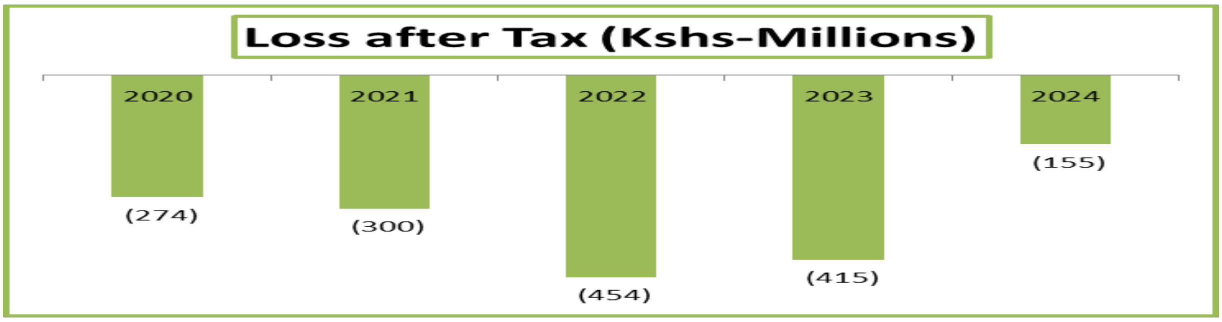
The Bank reported 5% decline in net loans and advances to close at Kshs. 8.51 billion attributed to reduced customer borrowing appetite as a result of high interest rates coupled with a tough macro-economic environment in which most businesses operated in. This performance is in line with a constricted private sector credit of 1.4% in December 2024. Despite this, we have put in place key activities to build the asset book through strategic partnerships as we continue to support customers on their financial needs. The Bank continued to diversify its investments by investing the excess liquidity in Government securities which grew by 69% to Ksh.6.4 billion from the Ksh.3.8 billion recorded the previous year, thus leading to higher interest income.

Robust revenue growth			
In Ksh. Millions	**2023**	**2024**	**Change**
Net Interest income(NII)	809,013	939,557	16%
Non-interest income	614,517	568,148	-8%
Total Income	**1,423,530**	**1,507,705**	**6%**
Allowances for expected credit losses	439,684	235,245	-46%
Operating expenses	1,382,694	1,407,876	2%
Loss Before Tax(LBT)	**(398,848)**	**(135,416)**	**-66%**
Income Tax expense	(16,422)	(19,804)	21%
Loss Before Tax(LBT)	**(415,270)**	**(155,220)**	**-63%**

The Bank witnessed robust revenue growth of 15%, with our revenue sources remaining well diversified across business segments and product lines. Our net interest income (NII) accounted for 66% while non-funded income accounted for 34% of total revenue. NII increased by 16% to hit Ksh.940 million driven by improved yields due to repricing of the loan book in line with the operating environment and higher interest income from Government securities. However, this was offset by increased cost of funding due to high interest rates on the funding lines combined with growth in customer deposits to fund the asset momentum. The Bank witnessed revenue growth of 6%, with our revenue sources remaining well diversified.

Impairment recorded declined of 46% from Ksh. 440 million in 2023 to Ksh. 235 million anchored on increased collections and recoveries. This was offset by increased credit risk occasioned by the challenging operating environment for our customers which resulted in a surge in our gross non-performing loans year on year by 5% to hit Ksh.3.64 billion from the Ksh.3.46 in 2023.We continue to mitigate the impairment growth by enhancing our underwriting standards and have put in place measures to closely monitor the book with the aim of identifying distressed assets early and taking mitigation action and creating internal efficiencies on the collections and recoveries fronts.

The Bank total costs closed at Ksh.1.4 billion which represent a 2% growth from the Ksh.1.38 billion recorded the previous year, coming from implementation of strategic initiatives offset by cost containment measures and improved operational efficiencies.



The Bank managed to cut the Group After-tax losses by 63% to Ksh. 155 million from the Ksh.415 million recorded in 2023 underscoring our turn-around strategy.

Capital

Capital still remains a challenge and the Bank is keen on addressing this. The Bank has come up with a capital build-up and restoration plan which will ensure compliance with the regulatory requirements and support growth as per the Bank's strategy in the medium term and beyond.

Future Focus and Outlook

Moving forward to 2025 and beyond, as a Bank, the growth outlook is positive as evidenced in the improved 2024 performance and we remain confident in our strategy of *turnaround and growth.*

Business Events and Corporate Social Responsibility (CSR)

The Bank continued to support various events such as Business Expos, The International Women's Day, tree planting, donation of water tanks, Mater Heart Run and engaging in sustainable CSR activities with focused on education, environment and the less fortunate in the society.

Appreciation

I wish to express our appreciation to all our stakeholders, that is, our shareholders, customers, partners, the Board of Directors and the staff of Consolidated Bank for their unwavering support and commitment. It is through our collective efforts and shared vision that we will be able to turnaround this great Bank and un-lock new opportunities for growth.

Thank you and God bless you.

Sam Muturi
Chief Executive Officer


Consolidated Bank
Growing with you

Corporate governance defines the process and structure used to direct and manage the business affairs of Consolidated Bank of Kenya Limited ("the Bank") with the aim of enhancing corporate accounting and shareholders' long term value while taking into account the interests of other stakeholders.

The Board of Directors is responsible for the governance of the Bank and is committed to ensuring that its business operations are conducted with integrity and in compliance with the law, internationally accepted principles and best practices of corporate governance and business ethics. To this end the Bank has put in place processes, systems, practices and procedures which are frequently reviewed and updated embracing the changing corporate environment and world trends.

Business Ethics

The Bank conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its clients, intermediaries, insiders, employees and other stakeholders are conducted at arm's length, with integrity and transparency. The business is conducted with high levels of transparency and accountability.

Board of Directors

The names of the Directors as at the date of this report are set out on page 3.

The Board fulfils its fiduciary responsibility to the shareholders by maintaining control over the strategic, financial, operational and compliance issues of the Bank. Whilst the Board provides direction and guidance on strategic and general policy matters and remains responsible for establishing and maintaining overall internal controls over financial, operational and compliance issues, it has delegated authority to the Chief Executive Officer to conduct the day-to-day business of the Bank.

The Board consists of eight non-executive directors (including the Chairman) and the Chief Executive Officer. The Board members possess extensive experience in a variety of disciplines in banking, business and financial management, all of which are applied in the overall management of the Bank. The Board meets at least once every two months and has a formal schedule of matters reserved for it. The Directors are given appropriate and timely information so that they can perform their fiduciary responsibilities effectively.

a) Directors' Emoluments and Loans

The remuneration of all Directors is subject to the guidelines issued by the Office of the President on terms and conditions of service for State Corporations. The Directors are not eligible for membership of the pension scheme and do not participate in any of the Bank's bonus schemes. Information on the compensation received and the dealings of the Directors with the Bank are included in notes 17 and 42 to the financial statements.

b) Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the Bank and its Directors or Management except those disclosed in note 42 to the financial statements.

The Board has set up working committees to assist in discharging its duties and responsibilities as follows:

Audit Committee

The Committee reviews the integrity of the financial statements of the bank and recommends the statements for approval to the Board. The Committee considers management's recommendations in respect of impairment on loans and advances as well as other disclosure requirements. The Committee is also mandated to raise the standards of corporate governance by reviewing the quality and effectiveness of the internal control systems, the internal and external audit functions and the quality of financial reporting. In addition to advising the Board on best practice, the committee also monitors management's compliance with relevant legislation, regulations and guidelines as well as the Bank's laid down policies and procedures. The committee has direct contact with the Internal Audit function, the Company the Company Secretary and the external auditors.

Risk Committee

The committee is responsible for overseeing the implementation of the Bank's risk management framework to ensure that all existing and potential significant risks are identified and effectively managed. The committee considers both internal and external sources of information regarding risks to keep abreast with new developments and their potential impact to the business. The committee receives periodic reports from the risk and compliance function relating to the Bank's strategic risk, credit risk, market risk (interest rate risk, price risk, and foreign exchange risk), operational risk, regulatory risk, reputational risk, and liquidity risk.

Finance and Credit Committee

The committee is mandated to review and make recommendations on the Bank's credit, financial and accounting policies, and review and make recommendations on the Bank's Annual Budget, oversight of the overall lending policy of the Bank and deliberate and consider loan applications beyond the credit discretion limits set for management. The committee also reviews and considers all issues that may materially impact the present and future quality of the Bank's credit risk management function as well as the quality of the loan portfolio and ensure adequate bad debt provisions are maintained in line with the Central Bank of Kenya prudential guidelines and International Financial Reporting Standards (IFRS). The committee also reviews, approves and monitors the management's compliance with applicable statutory provisions, Bank policies and guidelines relating to the monitoring of price, liquidity, exchange rate and interest rate risks.

Staff Committee

The committee is mandated to formulate staff policies and procedures and ensure an adequately staffed and professionally managed human resource. The committee assists the Board in discharging its corporate governance role by reviewing staffing needs of the Bank, appoints senior management staff, reviews training needs and undertake disciplinary measures as per the staff policies.

During the year under review, the Board held main board and working committee meetings. The Board members attendance for 2024 is as follows:

Name	Board Meeting			Audit Committee			Risk & Compliance Committee			Credit & Finance Committee			Staff Committee		
	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%
Hon. Muriuki Njagagua –Chairman	7	7	100%	-	-	-	-	-	-	-	-	-	-	-	-
Samuel Muturi - (Chief Executive Officer)	7	7	100%	-	-	-	1	1	100%	4	4	100%	6	6	100%
Jane Wacuka Njogu Macharia - Representing Cabinet Secretary National Treasury	7	5	71%	2	2	100%	-	-	-	4	4	100%	-	-	-
Jedidah Mwiti- (Term ended on 5 October 2024)	4	4	100%	2	1	50%	1	1	100%	2	2	100%	3	3	100%
Timothy Tiampati	7	7	100%	2	2	100%	-	-	-	4	4	100%	6	6	100%
Kenneth Gatiithi	7	7	100%	2	2	100%	1	1	100%	4	4	100%	6	6	100%
Tom Kahigu (Term ended on 5 October 2024)	6	6	100%	-	-	-	1	1	100%	3	3	100%	4	4	100%

The Board member's attendance for 2023 is as follows:

Name	Board Meeting			Audit Committee			Risk & Compliance Committee			Credit & Finance Committee			Staff Committee		
	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%
Hon. Muriuki Njagagua –(Appointed 10 February 2023) Chairman	4	4	100%	-	-	-	-	-	-	-	-	-	-	-	-
Samuel Muturi - (Chief Executive Officer)	4	4	100%	-	-	-	4	4	100%	4	4	100%	4	4	100%
Jane Wacuka Njogu Macharia - Representing Cabinet Secretary National Treasury	4	4	100%	4	4	100%	-	-	-	4	4	100%	4	4	100%
Moses Cheseto- Alternate to Managing Trustee - NSSF	4	4	100%	4	4	100%	4	3	75%	-	-	-	-	-	-
Nabila Mazrui	4	4	100%	3	3	100%	-	-	-	3	3	100%	3	3	100%
David Obure	4	4	100%	-	-	-	-	-	-	4	4	100%	4	4	100%
Isaac Muoki	4	4	100%	-	-	-	4	4	100%	4	4	100%	4	4	100%
Dr. Kennedy Otiso	4	4	100%	4	4	100%	4	3	75%	-	-	-	4	4	100%
Ms. Marykaren Kigen-Sorobit	4	4	100%	-	-	-	4	4	100%	4	4	100%	-	-	-
George Mokua	4	4	100%	3	1	33%	4	3	75%	-	-	-	3	3	100%

Board performance evaluation

The Chairman conducts evaluations of the performance of the Board, individual Directors and Board Committees annually. In addition, the Board and its Committees undertake an annual evaluation of their performance and report their findings and any resulting recommendations to the Board. The Board also undertakes an evaluation of the performance of the Chairman. The Board discusses the results of its evaluations and uses the process to constructively improve the effectiveness of the Board.

Shareholders

Below is the list of the shareholders and their individual holdings

	Ordinary Shares				Preference shares		
	2024		2023			2024	2023
	No of shares	%	No of shares	%	No of shares	%	%
Cabinet Secretary/The National Treasury	140,000,000	93.4%	140,000,000	93.4%			
National Social Security Fund	2,225,000	1.5%	2,225,000	1.5%	8,050,000	22.30%	22.30%
Kenya National Assurance (2001)	1,094,487	0.7%	1,094,487	0.7%	3,958,300	11.00%	11.00%
Kenya National Assurance Company Limited	835,513	0.6%	835,513	0.6%	3,021,700	8.40%	8.40%
Kenya Pipeline Company Limited	720,000	0.5%	720,000	0.5%	2,631,500	7.30%	7.30%
Kenya National Examination Council	695,000	0.5%	695,000	0.5%	2,520,000	7.00%	7.00%
Public Trustees	660,000	0.4%	660,000	0.4%	2,420,000	6.70%	6.70%
Telkom Kenya Limited	620,000	0.4%	620,000	0.4%	2,250,000	6.20%	6.20%
National Hospital Insurance Fund	590,000	0.4%	590,000	0.4%	2,120,000	5.90%	5.90%
LAPTRUST Retirement Services Limited	483,000	0.3%	483,000	0.3%	1,756,000	4.90%	4.90%
Total of 10 above	147,923,000	98.7%	147,923,000	98.7%	28,727,500	79.70%	79.70%
Other shareholders	1,997,000	1.3%	1,997,000	1.3%	7,329,000	20.30%	20.30%
TOTAL SHAREHOLDING	149,920,000	100%	149,920,000	100%	36,056,500	100%	100%

Compliance

The Board provides oversight to ensure that management adheres to all applicable laws, regulations, governance codes, policies, procedures and systems to monitor and control compliance across the bank. Additionally, the Bank prepares its financial statements in accordance with International Financial Reporting Standards (IFRS), requirements of the Banking Act Cap 488 and the Kenyan Companies Act 2015.

Harun K. Mosop - Director

20TH MARCH 2025

FINANCE TIP

Consolidated Bank
Growing with you

"When you get your paycheck, take a percentage between 10 percent and 30 percent and save it. You'll be rich enough to be financially independent within a short period of time."

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

INCORPORATION

The Bank is domiciled in Kenya where it is incorporated as a private company limited by Shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 3.

DIRECTORATE

The Directors who held office during the year and to the date of this report are set out on page 3. The following changes took place in the directorship during the year:

Hon. Muriuki Njagagua -Chairman
Samuel Muturi - Chief Executive Officer
Cabinet Secretary, National Treasury
Managing Trustee – NSSF
Timothy Tiampati
Kenneth Gatheru Gatiithi
Harun K. Mosop (Appointed on 8 November 2024)
Florence A. Oluoch (Appointed on 8th November 2024)
Dr. Jedidah Mwiti (Term ended on 5 October 2024)
Dr. Tom Kahigu (Term ended on 27 October 2024)

PRINCIPAL ACTIVITIES

The principal activities of the Bank, which is governed by the Banking Act, are the provision of banking, financial and related services.

BUSINESS REVIEW

In 2024, the Kenyan economy is projected to have grown at an average of 4.6%, lower than the growth of 5.6% observed in 2023. The slower growth is primarily attributable to reduced private sector activity, ongoing fiscal consolidation efforts by the Government, high borrowing costs which have limited public spending. Additionally, political instability during the year, fue led by anti-finance bill protests and opposition against the current regime, undermined investor confidence and disrupted economic activities.

The banking sector remained stable and resilient, with strong liquidity though lending to the private sector contracted by 1.4% in the year 2024.Credit risk remained elevated during the year with the ratio of NPLs to gross loans increasing to an average of 16.4% as at December 2024 compared to 15% as at December 2023 and this is expected to continue in the short to medium term. Additionally, operational risk remained elevated as banks scale up digitization. In total, Monetary Policy Committee (MPC) lowered the rates in 2024 by 1.75%, from 13.00% in February 2024 to 11.25% in December thus lowering borrowing costs, leading to increased spending and an uptick in the business environment as well as reduced debt servicing costs for the Government and anchoring private sector credit growth.

The Bank is on the second year of implementing an aggressive five-year *turnaround and growth* strategic plan for the period 2023 to 2027 which is anchored on five strategic pillars of; business growth, brand positioning, people, asset quality and leveraging on technology. Consolidated Bank 2024 performance highlights the Bank's resilience and growth in a challenging economic environment. The Bank's performance has been supported by strong growth in revenue, customer deposits, and reduced losses in the year. The Bank continues to engage the majority shareholders; The National Treasury and other shareholders on the issue of capital injection to support the growth and statutory compliance.

The Group's loss for the year decreased from KES 398 million in 2023 to KES 135 million in 2024 an improvement of 66%. The Bank's total assets grew by an impressive 15% to hit KES 17.5 billion from KES. 15.2 billion in 2023. Net advances declined by 5% to KES 8.5 billion from KES 8.9 billion with investment in Government securities growing by an impressive 69% to KES 6.4 billion from the KES 3.8 billion recorded in 2023.Customers deposits grew by 10% from KES 10.7 billion in 2023 to KES 11.7 billion in 2024 due to an aggressive business growth strategy. Total operating income grew by 6% to Ksh.1.5 billion with 16% growth in the net interest income with major growth arising from investment in Government securities. Operating expenses grew by 2% with provisions for impairment declining by 47% to Ksh.235 Million from Ksh.439 million in 2023.

The summary of financial performance for the Group is as below;

RESULTS	2024 KES'000	2023 KES'000
Loss before taxation	(135,416)	(398,848)
Taxation credit	(19,804)	(16,422)
	(155,220)	(415,270)
Loss for the year transferred to accumulated losses		

Dividend

The Directors do not recommend the payment of a dividend for the year (2023: nil).

STATEMENT AS TO DISCLOSURE TO THE INDEPENDENT AUDITOR

With respect to each of the persons who is a Director at the date of approval of this report confirms that:

- there is, so far as the Director is aware, no relevant audit information of which the Bank's auditor is unaware; and
- the Director has taken all the steps that he/she 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.

Independent Auditor

The Auditor General is responsible for the statutory audit of the Bank's books of account in accordance with section 14 and section 39(l)of the Public Audit Act, 2015 which empowers the Auditor General to nominate other auditor to carry out the audit on her behalf and subject to the approval by the Central Bank of Kenya in accordance with the requirements of Section 24(1) of the Banking Act of Kenya.

RSM E.A. LLP, who were appointed by the Auditor General, carried out the audit of the financial statements for the year ended 31 December 2024.

BY ORDER OF THE BOARD

Ag. Company Secretary
Albert Anjichi

Nairobi

20th March 2025

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The Kenyan Companies Act, 2015, requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Bank as at the end of the financial year and of its profit or loss for that year. It also requires the Directors to ensure that the Bank maintains proper accounting records that are sufficient to show and explain the transactions of the Bank and disclose, with reasonable accuracy, the financial position of the Bank. The Directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and error.

The Directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and the Banking Act of Kenya. They also accept responsibility for:

i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
ii) selecting suitable accounting policies and applying them consistently; and making accounting estimates and judgements that are reasonable in the circumstances.

The Directors have considered the matters discussed in note 9 to the financial statements, which indicates that the group incurred a loss after tax of KES 155 million during the year ended 31 December 2024 (2023: KES 415 million) and accumulated losses stood at KES 4.425 billion (2023: KES 4.229 billion) as of that date.

The decrease of 65% in the operating losses in a difficult operating macroeconomic environment is an indication of the Bank's focus in turning around to profitability. The decrease in the losses is attributable to increase in operating income and the key strategic initiatives, which were implemented; to manage operating expenses the Bank's credit risk management which saw the provisions for impairment decline by 47% to KES 235 Million from the KES 439 Million recorded the previous year. The Bank's total assets grew by 15% to hit Kes 17.5 Billion with the net interest income increasing by 16% to KES 940 million from KES 810 million recorded the previous year. The Bank took the strategic initiative to invest in more attractive but less risky earning assets such as Government securities due to the low demand for credit and the difficult operating environment most business faced in the year.

The Bank's regulatory capital ratios as at 31 December 2024 were however below the regulatory minimum with total capital / risk weighted assets at (5.81%) (2023: (4.46%)) against a minimum of 14.5% and core capital / risk weighted assets at (5.81%) (2023: (4.46%)) against a minimum of 10.5%.

The Board and management have put in place an aggressive growth and turnaround five-year strategic plan for the period 2023 to 2027. The strategy is anchored on five strategic pillars; business growth, brand positioning, people, asset quality and leveraging on technology will see the Bank turnaround to profitability.

Raising additional capital to finance growth and maintain healthy regulatory ratios is of paramount importance. The Board has been in constant engagement with the National Treasury the majority shareholder and other shareholders to inject additional capital in the bank to ensure compliance with the regulatory capital ratios. The National Treasury, the majority shareholder with 93.4%, is committed to continue to support the bank to meet regulatory capital ratios and implement the 2023-2027 strategic plan.

Based on the foregoing, and having made an assessment of the Group and the Bank's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt on the Group and the Bank's ability to continue as a going concern except as disclosed in note 9 to the financial statements.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 20TH MARCH 2025 and signed on its behalf by:

Harun K. Mosop - Director	Hon. Muriuki Njagagua
Director	Chairman

DIRECTOR'S REMUNERATION

The Board establishes and approves formal and transparent remuneration polices to attract and retain both Executive and Non-Executive Directors. The remuneration of all Directors is subject to the guidelines issued by the State Corporations Advisory Committee (SCAC) on terms and conditions of service for State Corporations.

In accordance with the guidelines provided by the State Corporations Advisory Committee (SCAC), Salaries and Remuneration Commission (SRC) as well as the National Treasury and other shareholders' approval during the Annual General Meetings, the Directors are paid a sitting allowance of KES 20,000 for every meeting attended. The Directors and the Chairman are also paid a monthly retainer of KES 50,000 and KES 150,000, respectively. The Directors are not eligible for membership of the pension scheme and do not participate in any of the Bank's bonus schemes.

Contract of Service

In accordance with the Kenyan Companies Act, 2015 and the Capital Market Regulations of Kenya on Non-Executive Directors, a third of the Board is elected at every Annual General Meeting by shareholders for a term of three years, on rotational basis.

The Chief Executive Officer has a three-year renewable contract of service with Consolidated Bank of Kenya Limited and Subsidiary, effective 11 October 2022 to 10 October 2025.

Changes to Directors' Remuneration

During the period, there were no changes in Directors' remuneration, which is set as per the guidelines provided by the State Corporation Advisory Committee and the Salaries, and Remuneration Commission.

Statement on approval of Directors' Remuneration during the Annual General Meeting

During the Annual General Meeting held virtually on 26 September 2024, the shareholders approved the payment of Directors' fees for the year ended 31 December 2024 in accordance with the guidelines provided by the State Corporations Advisory Committee and the Salaries and Remuneration Commission.

The following tables shows a single figure remuneration for the CEO and Non-Executive Directors in respect of qualifying services for the year ended 31 December 2024 together with the comparative figures for 2023. The aggregate Directors emoluments are shown in note 17.

FOR THE YEAR ENDED 31 DECEMBER 2024	Category	Gross Payments KES' 000	Honorarium KES' 000	Allowances KES' 000	Total KES' 000
Hon. Muriuki Njagagua -(Appointed on 10 February 2023)	Non-Executive Chairman	-	1,800	4,902	6,702
Samuel Muturi	Chief Executive Officer	25,181	-	-	25,181
Jane Wacuka Njogu Macharia – Representing Cabinet Secretary National Treasury	Non-Executive	-	600	260	860
Kahigu Tom Muchiru	Non-Executive	-	746	1,056	1,802
Timothy Tiampati	Non-Executive	-	639	1,485	2,124
Jedidah Mwiti	Non-Executive	-	497	619	1,116
Keneth Gatiithi	Non-Executive	-	639	1,609	2,248
Total		25,181	4,921	9,931	40,033

FOR THE YEAR ENDED 31 DECEMBER 2023	Category	Gross Payments KShs' 000	Honorarium KShs' 000	Allowances KShs' 000	Total KShs' 000
Hon. Muriuki Njagagua -(Appointed on 10 February 2023)	Non-Executive Chairman		1,594	3,010	4,604
Samuel Muturi	Chief Executive Officer	25,269			25,269
Jane Wacuka Njogu Macharia – Representing Cabinet Secretary National Treasury	Non-Executive		600	757	1,357
Moses Cheseto- Alternate to Managing Trustee – NSSF	Non-Executive		600	805	1,405
Peter Musei -(Term ended on 10 february 2023)	Non-Executive		199	247	446
Ibrae Doko	Non-Executive		149	1,292	1,441
Dr. Kennedy Otiso	Non-Executive		561	3,593	4,154
Marykaren Kigen-Sorobit	Non-Executive		561	1,292	1,853
David Obure	Non-Executive		561	1,788	2,349
Isaac Mulatya Muoki	Non-Executive		561	4,114	4,675
Nabila Mazrui			908	2,555	3,463
George Mokua			908	1,135	2,043
Total		**25,269**	**7,202**	**20,588**	**53,059**

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- **Under the payment option select – Consolidated Bank and receive a Reference Number**
- **To pay:**
  Using cash – visit any of our branches with the Reference Number, pay and get a receipt
  Using *262#, MyConso App or Internet Banking – select eCitizen option, input the Reference Number, pay and confirm
- **Return to eCitizen portal to complete the service by clicking “Confirm Payments”**

Report on the Consolidated and Separate Financial Statements

Opinion

We have audited the accompanying consolidated and separate financial statements of Consolidated Bank of Kenya ("the Bank") and its Subsidiary (together the "Group") set out on pages 52 to 135 which comprises the consolidated and separate statements of financial position as at 31 December 2024 and the consolidated and separate statements of profit or loss or other comprehensive income and the consolidated and separate statements of changes in equity and the consolidated and separate statement s of cash flows for the year then ended and notes to the financial statements including a summary of material accounting policy information .

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Group and the Bank as at 31 December 2024 and their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with IFRS Accounting Standards and the requirements of the Kenyan Companies Act, 2015 and the Banking Act, 2012.

Basis for opinion

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

Key Audit Matters

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

Report on the Consolidated and Separate Financial Statements (continued)

Key Audit Matter	Our Approach
We determined that the impairment on loans and the advances to customers was a key audit matter due to the high degree of estimation uncertainty and significant judgement applied by Management in determination of Expected Credit Losses (ECL) as summarized below. Forward–looking information – IFRS 9 requires the Bank to measure ECLs on a forward-looking basis reflecting a range on future economic conditions. Significant management judgement applied to determining the macroeconomic information used and the probability weightings applied. Significant Increase in Credit Risk – The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Banks ECL calculation as these criteria determine Whether a 12- month or lifetime provisions are recorded. Model estimation – inherently judgmental modelling used to estimate ECLs, which involves determining Probabilities of Default (PD), Loss Given Default (LGD), and Exposures At Default (EAD). The PD and LGD Models used are the key drivers of the Banks ECL results and are therefore most significant judgmental aspect of the Banks ECL Modelling approach.	▪ Assessing the appropriateness of parameters used in the statistical models in respect of Probability of default (PDs) , Loss Given Default (LGDs) , and Exposure at default (EADs) By Considering local economic conditions ,and ; ▪ Evaluating Managements basis for establishing Stage 3 loss allowances in terms of the Group and the Banks policies and in terms of the requirements of IFRS 9. This included challenging reasonability of Management assumptions on cash flow projections and time to realization for a sample of the facilities. ▪ Making use of our internal IFRS experts modelling specialists to: ▪ Assess the Banks methodology for determining the economic scenarios used in the forward–looking information and the probability weightings applied to the scenarios. ▪ Assess the key economic variables used in the determination of ECL ,including agreeing a sample of economic variables to external sources , as well as the overall reasonableness of the economic forecasts by comparing the Banks forecasts to reputable ,external sources of macroeconomic forecasts

There existed a material uncertainty related to going concern. The Bank did not meet key regulatory ratios for the year that ended. Further, The Business Laws (Amendment) Act, 2024, which was signed into law in December 2024, requires banks to increase their minimum core capital from KES 1 billion to KES 10 billion over the next five years. The top-up starts with an increase to KES 3 billion by the end of 2025, progressing to KES 7 Billion by 2027, KES 8 billion by 2028, and finally KES 10billion by 2029. Currently, the Bank's core capital stands at KES (0.715) million.	▪ We obtained and reviewed management's plan of action that included a five-year strategic plan, which ends in 2027. ▪ Based on our understanding of the Bank and the assessed risks, we identified and discussed any matters that would cast doubt on the feasibility of the plan. ▪ We reviewed management's estimates. Specifically, we: a) evaluated the reliability of the data used to generate the forecast; b) checked the arithmetic accuracy of the information and computations; c) ensured that the information is internally consistent (that is, the Bank has rolled out the loan products in the income forecast); d) Compared the forecast to actual prior period experience and assessed the reasonableness of the forecast. e) Considered the forecasted cash generated/used in operations, debt repayments and other known cash requirements; and f) Considered whether the assumptions used about the economy, interest rates, industry trends, costs, staffing, sales and general market conditions are reasonable. • Determined whether the nature/implications of the material uncertainty have been adequately disclosed in the financial. • Reviewed letter of support obtained by the directors from the anchor shareholder, the Government of Kenya.

Report on the Consolidated and Separate Financial Statements (continued)

Other Information

The directors are responsible for the other information. The other information comprises the information included in the reports accompanying the Annual Financial Statements for the year ended 31 December 2024. Other information does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors and Those Charged with Governance for the Consolidated and Separate Annual Financial Statements

As stated on page 9, the directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS Accounting Standards and in the manner required by the Kenyan Companies Act, 2015, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Delegated Auditor's Responsibility
Our responsibility is to report and express an opinion on the outcome of our audit of these annual financial statements to the Auditor-General.

Auditor-General's Responsibility

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

Delegated Auditor's Responsibilities for the Audit of the Consolidated and Separate Annual Financial Statements

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

Report on the Consolidated and Separate Financial Statements (continued)

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

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

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

Report on Other Legal and Regulatory Matters as Prescribed by the Kenyan Companies Act, 2015

As required by the Kenyan Companies Act, 2015, we report to you based on our audit that the information given in the Report of the Directors on page 24 - 25 is consistent with the financial statements.

The signing partner responsible for the audit resulting in this independent auditor's report is CPA Elvis Ogeto, Practising Certificate No. 2303.

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For and on behalf of RSM Eastern Africa LLP
Certified Public Accountants (Kenya)
Nairobi

Date:
046/2025 20TH MARCH 2025

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PREAMBLE

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

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment, and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An Unmodified Opinion is issued when the Auditor-General concludes that the Financial statements are fairly presented in accordance with the applicable financial reporting framework .The Report on the Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources ,and the Report on Effectiveness internal controls ,Risk Management ,and Governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Consolidated Bank of Kenya Limited set out on pages 52 to 135, which comprise the Group and the Bank statements of financial position as at 31 December, 2024, and statements of profit or loss and other comprehensive income, statements of changes in equity and the statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by RSM

Eastern Africa LLP, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the Group and the Bank financial statements present fairly, in all material respects, the financial position of Consolidated Bank of Kenya Limited as at 31 December, 2024, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Kenya Companies Act, 2015 and the Banking Act, 2012 (Revised).

Basis for Opinion

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

Material Uncertainty Related to Going Concern

I draw your attention in Note 9 to the financial statements on going concern. The Bank continued to register poor performance in its operations. During the year under review, the Bank incurred a loss of Kshs.163, 789.000 (2023 – loss, Kshs, 421,328,000), resulting into an accumulated loss of Kshs. 4,450,772.000 which was net of other adjustments totaling to negative Kshs. 42,796,000 (2023-accumulated loss, Ksh4, 244,187,000) as at 31 December, 2024. As a result the Group registered a loss of KSHs 155,220,000 (2023-Kshs. 415, 270,000) while the accumulated los increased to Kshs.4,425,056,000 net of other adjustments totalling to negative Kshs. 40,229,000 (2023-Kshs.4,229,607,000) as at 31 December ,2024. Further, as disclosed in Note 9 to the financial statements, the Banks total capital to risk weighted assets ratio continued to decline negative 5.81% (2023- negative 4.46%) against a regulatory minimum capital ratio of 14.5%. The Groups current liabilities balance of Kshs 17,010,415,000 exceeded current assets balance of Kshs .16, 544,278,000 by Kshs.466, 137,000. These conditions alongside other matters as disclosed in Note 9 to the financial statements cast significant doubt on the Banks ability to discharge its obligations when due and its existence as a going concern is dependent upon continued support by the Government and its creditors.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Key Audit Matter	How the Matter was Addressed
Impairment Allowances on Loans and Advances at Amortised Cost in the Consolidated and Bank Financial Statements I determined that the impairment on loans and advances to customers as a Key Audit Matter due to the high degree of estimation uncertainty and significant judgement applied by Management in determination of Expected Credit Losses (ECL) as summarized below; **Forward-Looking Information** IFRS 9 requires the Bank to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement applied to determining the macroeconomic information used and the probability weightings applied **Significant Increase in Credit Risk** The criteria selected to identify a significant increase in credit risk is a key area of Judgement within the Bank's ECL calculation as these criteria determine Whether a 12-month or lifetime provisions are recorded. **Model Estimations** Inherently judgmental modeling used to estimate ECLs, which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD'). The PD and LGD modules used are the key drivers of the Bank's ECL results and are therefore the most significant judgmental aspect of the Bank's ECL modeling approach.	▪ Assessing the appropriateness of parameters used in the statistical models in respect of Probability of Default (PDs), Loss Given Default (LGDs), and Exposure at Default (EADs) by considering local economic conditions, and; ▪ Evaluating Management's basis for establishing Stage 3 loss allowances in terms of the Group and Bank's policies and in terms of the requirements of IFRS 9. This included assessing reasonability of Management assumptions on cash flow projections and time to realization for a sample of the facilities. ▪ Making use of our internal financial risk modeling specialists to: ▪ Assess the Group and Bank's methodology for determining the economic scenarios used in the forward-looking information and the probability weightings applied to the scenarios; ▪ Assess the key economic variables used in the determination of ECL, including agreeing a sample of economic variables to external sources, as well as the overall reasonableness of the economic forecasts by comparing the Group's and Bank's

	forecasts to reputable, external sources of macroeconomic forecasts.
Going concern There existed a material uncertainty related to going concern .The Bank did not meet key regulatory ratios during the year under the review. Further, the Business Laws (Amendment) Act, 2024, which was signed into law in December, 2024, requires banks to increase their minimum core capital from Kshs .1 billion to Kshs 10 billion over the next five years. The top-up starts with an increase to Kshs 3 billion by the end of 2025 progressing to Kshs. 7 billion by 2027 , Kshs.8 billion by 2028 and finally reaching Kshs.10 billion by 2029 .Currently the Banks core capital stands at negative Kshs.715,000	I obtained and reviewed management's plan of action that included a five -year Strategic Plan which ends in 2027. Based on my understanding of the Bank and the assessed risks , I identified and discussed any matters that cast doubt on the feasibility of the plan I reviewed management's estimate.Specifically,I: a. evaluated the reliability of the data used to generate the forecast; b. checked the arithmetic accuracy of the information and computations; c. ensured that the information is internally consistent (that is, the entity can physically generate products in the sales forecast); d. Compared the forecast to actual prior period experience and assessed the reasonableness of the forecast. e. considered the forecasted cash generated/used in operations, debt repayments and other known cash requirements; and
Key Audit Matter	How the Matter was Addressed
	f. Considered whether the assumptions used about the economy, interest rates, industry trends, costs, staffing, sales, and general market conditions were reasonable. Determined whether the nature and implications of the material uncertainty have been adequately disclosed in the financial statements and appropriately accounted for in accordance with IFRS. Reviewed the letter of support obtained by the directors from the anchor shareholder, the Government of Kenya.

Other Information

The Directors are responsible for the Other Information set out on pages 1 to 11, which comprise Corporate Information, the Statement of Corporate Governance, Report of the Directors, the

Statement of Directors' Responsibilities, and the Directors' Remuneration Report. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit of the Group's and the Bank's financial statements, my responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact, In my opinion, I confirm that the Other Information is not materially inconsistent with the financial statements.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. **Non-Compliance with the Public Sector Accounting Standards Board Requirements**

Review of the financial statements revealed that Management failed to include several components within the Other Information, as required by the financial reporting template prescribed by the Public Sector Accounting Standards Board. The missing information encompassed Key Entity Information and Management, the Chairman's Statement, the Environmental and Sustainability Reporting, and the Statement of Performance against Predetermined Objectives.

In the circumstances, Management did not comply with the Public Sector Accounting Standards Board requirements.

2. **Non-Compliance with Prudential Guidelines on Capital Requirements**

As reported previously, review of the financial statements revealed that the Bank did not comply with various capital requirements set out in the Banking Act and Central Bank of Kenya (CBK) Prudential Guidelines as indicated below.

I. The Bank's core capital stood at a debit balance of Kshs. 715,000 against the minimum required capital of Kshs. 1000,000,000. This was a contrary of section 18(2) of the Banking Act, 1995(Revised 2015) which states that, "a non-operating holding company or any other vehicle ownership which controls a group shall, in relation to its business, maintain adequate capital and adequate forms of liquidity to demonstrate that it is a source of strength for the institution and shall comply with any regulations issued by the Central Bank on minimum ratios or capital requirements in any other form. Section 4.1.3 of part IV of the CBK Prudential Guidelines, 2013 sets the minimum absolute core capital requirement at Kshs. 1,000,000,000 for Banks and Mortgage Finance Companies.

II. The Bank's total capital to risk weighted assets ratio stood at negative 5.81% as reflected in Note 9 to the financial statements. This was against the minimum capital ratio required of 14.5% set out in Section 4.1.2 of Part IV of the CBK Prudential Guidelines, 2013.

III. The Bank's core capital to risk weighted assets ratio stood at negative 5.81% as reflected in Note 9 to the financial statements. This was against the minimum capital ratio required of 10.5% set out in Section 4.1.2 of Part IV of the CBK Prudential Guidelines, 2013.

IV. The Bank's core capital to total deposits ratio stood at negative 6.23% as reflected in Note 9 to the financial statements. This was against the required ratio of 8% set out in Section 4.1.1 of Part IV of the CBK Prudential Guidelines, 2013.

In the circumstances, Management was in breach of the law

3 Termination of Contract for the Upgrade of the Existing Core Banking System

The Bank entered into contract with a supplier for the upgrade of the existing Core Banking System; on 3 June, 2022 at a contract sum of USD 2,436,000. Review of the contract documents and related correspondences revealed the following unsatisfactory matters;

I. The contract was terminated by the Bank on 6 June, 2023 after the Bank's Management realized that the Core Banking System that was being offered by the consultant did not meet the user requirement as per the tender document and that the Company awarded the contract for the upgrade was a different entity from the Licensor /Service provider of the system that was being upgraded. This raises doubt on the extent of due diligence performed by the Bank.

II. Upon termination of the contract, the Consultant moved to court under Certificate of Urgency challenging the termination of the contract and sought compensation amounting to USD 1,334,000 for breach of contract and USD 293,600 for recovery of performance guarantee, all totalling to USD 1,627,600, translating to approximately Kshs. 211,588,000.

III. During the year under review, the Bank paid legal fees amounting to Kshs. 4,227,139 being 50% of total fees charged by a law firm in respect of instruction to enter appearance and defend the Bank against this claim.

IV. The law firm engaged by the Bank was not on the list of service providers prequalified by the Bank under provision of legal services category. This was contrary to Section 57 of the Public Procurement and Asset Disposal Act, 2015 which require the head of the procuring entity to maintain and update lists of registered suppliers, contractors and consultants in the categories of goods, works and services according to its procurement needs.

In the circumstances, Management was in breach of the law and value for money in respect to legal fees paid and the extent of due diligence performed on this contract could not be confirmed.

4 Unapproved Human Resource Instruments

Records provided for audit showed that the Bank developed and operationalized Human Resource Instruments as evidenced by the recruitment of twenty-one (21) employees during the year. However, the Instruments had not been approved by the State Corporation Advisory Committee (SCAC) before operationalization. This was contrary to Circular No. OP/SCAC 9/21/11 of 15 March, 2017 which required approval of State Corporations Human Resource Instruments by SCAC.

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

5. Irregular Payment of Acting Allowance

Review of human resource records revealed that eleven (11) officers were appointed to acting positions and paid acting allowances for periods exceeding six (6) months. The officers were paid a total of Kshs.5, 482,863 as acting allowance. This was contrary to Section C.14 (1) of the Public Service Commission Human Resource Policies, 2016 which states that, when an officer is eligible for appointment to a higher position and is called upon to act in that post pending advertisement of the post, he is eligible for payment of acting allowance at the rate of twenty percent (20%) of his substantive basic salary, and will not be payable to an officer for more than six (6) months.

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

6. Non-Compliance with the National Cohesion and Integration Act, 2008

In the year under review, the bank had two hundred and ten (210) employees. Out of these, the bank was in breach of Sections 7(1) and 7(2) of the National Cohesion and Integration Act, 2008 which states that, all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one-third of its staff establishment from the same ethnic community.

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

7. Use of Unapproved Salary Structure and Salary Increment

During the year under review, the Bank revised and partly operationalized the amended Salary Structure. Due to the implementation of the revised salary structure, Management implemented a 6% Cost of Living Salary Adjustment in November and December, 2024, resulting in a monthly payroll increase of Kshs.2, 164,117. This raised staff costs from an amount of Kshs.61.7 million to Kshs.63.9 million. However, Management did not obtain prior approval to implement the revised salary structure from the Salaries and Remuneration Commission (SRC) for the adjustment. This was contrary to Article 230(4) (b) of the Constitution of Kenya, which states that the powers and functions of the Salaries and Remuneration Commission shall be to advise the national and county governments on the remuneration and benefits of all public officers.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

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

1. **Failure to Implement Internal Audit Recommendations**

The Internal Audit Department conducted various audits during the year under review. However, review of the responses and action plan by Management with respect to the Internal Audit Reports showed that they were not prepared and submitted to the Chairperson of the Audit Committee within fourteen (14) days. This was contrary to Regulation 172(2) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer of an entity shall be responsible for the implementation of the recommendations made in the audit reports and shall develop response and action plan which he or she shall submit to the Chairperson of the Audit Committee within fourteen (14) days.

In the circumstances, existence of effective measures on implementation of proper internal controls and governance could not be confirmed.

2. Insufficient Due Diligence Before Advancing Loans

Review of non-performing loan records provided for audit revealed that the Bank disbursed a loan balance of Kshs.150 million in two installments of Kshs.75 million each to a client. It was however noted that the ownership of the land charged as collateral for the loan was in dispute, and had an ongoing court case. This casts doubt on the adequacy of due diligence performed by the Bank regarding land ownership prior to the charge. Further, records held the Bank indicated that the loan became non-performing shortly after the second installment was disbursed in February 2023. Furthermore, the assessment of the collateral offered by the beneficiary indicated a value of only Kshs.50 million an indication of material exposure on the Bank.

In the circumstances, the adequacy of the Bank due diligence procedures in respect of this loan could not be confirmed.

3. Failure to Update the Bank's Risk Pricing Model

During the year under review, the Bank's risk-based pricing model utilized sectoral data that was last collated between March 2018 and December 2020. Consequently, the model's inputs, specifically the Probability of Default (PD) and Loss Given Default (LGD) parameters, may not accurately reflect the prevailing economic conditions or the current risk environment.

In the circumstances, the Bank’s risk-based pricing model presents a material risk of inaccurate risk assessment and potential financial loss.

4. High Sector Concentration Exposure

An analysis of the loan portfolio revealed a critical concentration risk, with over 50% of the Bank's total loan exposure allocated to the trade sector. This disproportionate reliance on a single sector exposes the bank to significant sector – specific vulnerabilities .Adverse developments within the trade industry, including economic downturns, regulatory changes , or market volatility, could generate a systematic impact On the bank's overall loan portfolio, potentially leading to substantial financial losses.This concentration necessitates a review of the bank's risk management strategies to mitigate the potential for significant adverse impacts.

In the circumstances, the significant concentration of over 50% of the loan portfolio in the trade sector presents a material risk to the bank's financial stability.

5. Weaknesses in Information Technology Control Environment

Review and evaluation of the Information Technology (IT) systems relating to the operations of the Bank (the core banking systems), IT Systems used for the purpose of internal controls over financial reporting and other information systems revealed the following weaknesses:

(i**) Core Banking System Running on an Outdated Operating System**

The Core Banking System was running on an outdated and unsupported Operating System . The system reached its End of Life (EOL) on 30 June, 2014 and no longer receive security updates or vendor support.

(ii) **Use of Outdated Database in the Core Banking System**

The underlying database in the Core Banking System reached its end of life on 31 December, 2020, making it susceptible to security vulnerabilities.

(iii) Lack of Secure Socket Layer Encryption for Core Banking System

The Bank's Core Banking System, Intellect, was accessed without a Secure Socket Layer (SSL) certificate. This meant that data transmitted between users and the system was not encrypted, thereby increasing the risk of interception and unauthorized access.

(IV**) End-of-Life (EOL) and Extended Support for Operating Systems**

Several software components had reached their end-of-life and extended support phases. Specifically, eleven (11) servers were found to be operating on outdated server versions, twenty-two (22) servers were identified as being beyond their supported lifecycle, fifteen (15) workstations, while fifteen (15) routers were running on discontinued operating systems.

vi**) Use of Non-Activated Windows Operating Systems**

Several critical endpoints were operating on non-activated operating systems. This included the Active Directory Controller server, the iTax database server, and the computer accessing the MIPS system within the clearing department.

(**vii) Absence of Privileged Access Management Solution**

The Bank did not have a Privileged Access Management (PAM) solution in place to centrally manage privileged access and control privileged access to critical IT infrastructure including the Core Banking System, databases, servers, and network devices.

(**viii) Absence of Privacy Policy, Cookie Policy, and Cookie Consent Management on the Bank's Website**

The Bank's website lacked a dedicated privacy policy, cookie policy and cookie consent management mechanism. While the ICT policy contained clauses related to privacy and cookies, the absence of these elements on the website itself left visitors, including customers and potential users, uninformed regarding the collection, storage and processing of their personal data.

x) Systems Vulnerability

The vulnerability assessment and penetration test revealed several key weaknesses in the Bank's security posture. These included security misconfigurations which resulted from systems being configured to prioritize performance at the expense of security. The use of insecure protocols and services was also identified as a concern, as these transmit data without encryption, thereby increasing the risk of interception and unauthorized access .Additionally, web services vulnerabilities were present, which could potentially compromise the confidentiality, integrity, or availability of services and data. The Bank also exhibited a reliance on outdated and obsolete software, which lacked necessary security patches and was more susceptible of cyber-attacks. Further vulnerabilities were noted in the Server Message Block (SMB) protocol , potentially enabling attackers to gain access to sensitive information .Windows services vulnerabilities were also detected ,which could lead to unauthorized access ,data breaches , malware infections ,or denial –of –service attacks .Finally , Secure Shell (SSH) vulnerabilities were identified ,stemming from the support of cryptographically weak Hash-Based Message Authentication Codes, which could allow attackers to bypass restricted shells .

In the circumstances, the effectiveness of the Bank's core banking systems, ICT controls, and risk management practices related to the confidentiality, integrity, and availability of information could not be confirmed.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

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

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
ii. The information given in the Directors' report on pages 7 to 8 is consistent with the financial statements; and
iii. The auditable part of the Directors' remuneration report on pages 10 to 11 has been properly prepared in accordance with the Companies Act, 2015.

Responsibilities of the Management and Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations. Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with International Standards for Supreme Audit Institutions (ISSAIs). The standards require statements as a whole are free from material misstatements, whether due to fraud or error of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is material misstatement when it exists. Misstatements can arise from fraud or error and are to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

21 March, 2025

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	Note	2024 KES'000	2023 KES'000
	12	1,829,017	1,591,817
INTEREST EXPENSE	13	(889,461)	(782,804)
NET INTEREST INCOME		939,557	809,013
Fee and commission income	14	255,576	270,327
Foreign exchange trading income	15	58,606	52,052
Other operating income	16	253,966	292,138
OPERATING INCOME		1,507,705	1,423,530
Operating expenses	17	(1,407,876)	(1,382,692)
Increase in expected credit loss on loans and advances	25	(235,134)	(439,684)
Credit write-back/(loss expense) on balances due from banking institutions	22(a)	(111)	(2)
LOSS BEFORE TAXATION		(135,416)	(398,848)
INCOME TAX CHARGE	19(a)	(19,804)	(16,422)
LOSS FOR THE YEAR		(155,220)	(415,270)
OTHER COMPREHENSIVE INCOME			
Items that may not be reclassified subsequently to profit or loss:			
Net gain on equity instruments designated at fair value through other comprehensive income	27	-	-
Surplus on revaluation of property and equipment	34	-	-
Total other comprehensive income for the year, net of tax		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(155,220)	(415,270)
LOSS PER SHARE			KES
Basic and diluted	20	(1.04)	(2.77)

	Note	2024 KES'000	2023 KES'000
INTEREST INCOME	12	1,827,561	1,590,658
INTEREST EXPENSE	13	(889,461)	(782,804)
NET INTEREST INCOME		938,100	807,854
Fee and commission income	14	232,556	245,297
Foreign exchange trading income	15	58,606	52,052
Other operating income	16	253,966	292,138
		1,483,228	1,397,341
OPERATING INCOME			
Operating expenses	17	(1,395,601)	(1,365,808)
Increase in expected credit loss on loans and advances	25	(235,134)	(439,684)
Credit write-back/(loss expense) on balances due from banking institutions	22(a)	(111)	(2)
LOSS BEFORE TAXATION		(147,618)	(408,153)
INCOME TAX CHARGE	19(a)	(16,171)	(13,175)
LOSS FOR THE YEAR		(163,789)	(421,328)
OTHER COMPREHENSIVE INCOME			
Items that may not be reclassified subsequently to profit or loss:			
Net gain on equity instruments designated at fair value through other comprehensive income	27	-	-
Surplus on revaluation of property and equipment	34	-	-
Total other comprehensive income for the year, net tax		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(163,789)	(421,328)

ASSETS	Notes	31 December 2024 KES'000	31 December 2023 KES'000
Cash and balances with Central Bank of Kenya	21	834,990	901,554
Balances due from banking institutions	22(a)	430,740	203,461
Government Securities	23	6,374,515	3,769,458
Loans and advances to customers (Net)	24	8,513,879	8,943,138
Other assets	26	381,800	365,819
Equity instruments at fair value through other comprehensive income	27	8,354	8354
Taxation recoverable	19(c)	-	1,685
Property and equipment	28(a)	700,404	726,195
Right of Use Assets	28(c)	193,085	188,950
Intangible assets	29(a)	78,370	105,911
Prepaid operating lease rentals	30	5,619	5,789
TOTAL ASSETS		**17,521,756**	**15,220,314**
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Deposits and balances due to banking institutions	22(b)	17,268	332,378
Balances due to Central Bank of Kenya	22(c)	4,724,216	3,118,544
Customer deposits	31	11,715,930	10,665,362
Taxation payable	19(c)	1,688	-
Other liabilities	32	551,313	437,469
TOTAL LIABILITIES		**17,010,415**	**14,553,753**
SHAREHOLDERS' FUNDS			
Share capital	33(b)	3,719,530	3,719,530
Revaluation surplus	34	425,408	435,474
Accumulated losses	35	(4,425,056)	(4,229,607)
Statutory reserve	36	783,973	733,678
Fair value reserve	37	7,486	7,486
TOTAL SHAREHOLDERS' FUNDS		**511,341**	**666,561**
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**17,521,756**	**15,220,314**

The financial statements on pages 52 to 135 were approved and authorised for issue by the Board of Directors on 20TH MARCH 2025 and were signed on its behalf by:

Chairman–Hon. Muriuki Njagagua

Director – Harun K. Mosop

Chief Executive Officer -Samuel Muturi

Ag.Company Secretary –Albert Anjichi

ASSETS	Notes	31 December 2024 KES'000	31 December 2023 KES'000
Cash and balances with Central Bank of Kenya	21	834,990	901,554
Balances due from banking institutions	22(a)	430,740	203,461
Financial assets at amortised cost	23	6,364,047	3,759,019
Loans and advances to customers (net)	24	8,513,879	8,943,138
Other assets	26	381,683	365,702
Investment in subsidiary	42	5,000	-
Equity instruments at fair value through other comprehensive income	27	8,354	8,354
Taxation recoverable	19(c)	-	1,685
Property and equipment	28(b)	700,213	725,947
Right of Use Assets	28(c)	193,085	188,950
Intangible assets	29(b)	78,373	105,913
Leasehold land	30	5,619	5,789
TOTAL ASSETS		**17,515,983**	**15,209,512**
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Deposits and balances due to banking institutions	22(b)	17,268	332,378
Balances due to Central Bank of Kenya	22(c)	4,724,216	3,118,544
Customer deposits	31	11,715,930	10,665,362
Due to subsidiary	42	20,074	3,778
Taxation payable	19(c)	1,557	-
Other liabilities	32	551,313	437,469
TOTAL LIABILITIES		**17,030,358**	**14,557,531**
SHAREHOLDERS' FUNDS			
Share capital	33(b)	3,719,530	3,719,530
Revaluation surplus	34	425,408	435,474
Accumulated losses	35	(4,450,772)	(4,244,187)
Statutory reserve	36	783,973	733,678
Fair value reserve	37	7,486	7,486
TOTAL SHAREHOLDERS' FUNDS		**485,625**	**651,981**
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**17,515,983**	**15,209,512**

The financial statements on pages 52 to 135 were approved and authorised for issue by the Board of Directors on……20th……March……2025 and were signed on its behalf by:

Chairman–Hon. Muriuki Njagagua

Director – Harun K. Mosop

Chief Executive Officer – Samuel Muturi

Ag. Company Secretary –Albert Anjichi

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2024

	Note	Share Capital KES'000	Revaluation reserve KES'000	Accumulated losses KES'000	Statutory reserve KES'000	Fair value reserve KES'000	Total KES'000
At 1 January 2023		3,179,530	445,540	(3,871,788)	781,063	7,486	1,081,831
Loss for the year		-	-	(415,270)	-	-	(415,270)
Transfer of excess depreciation	35	-	(14,380)	14,380	-	-	-
Deferred tax on excess depreciation	35	-	4,314	(4,314)	-	-	-
Transfer to statutory reserve	36	-	-	47,385	(47,385)	-	-
At 31 December 2023		3,719,530	435,474	(4,229,607)	733,678	7,486	666,561
At 1 January 2024		3,719,530	435,474	(4,229,607)	733,678	7,486	666,561
Loss for the year		-	-	(155,220)		-	(155,220)
Capital injection	33(b)	5,000	-	-	-	-	5,000
Transfer of excess depreciation	35	-	(14,380)	14,380	-	-	-
Deferred tax on excess depreciation	35	-	4,314	(4,314)	-	-	-
Transfer to statutory reserve	36	-	-	(50,295)	50,295	-	-
At 31 December 2024		3,724,530	425,408	(4,425,056)	783,973	7,486	516,341

The fair value gain on investment property of KES 425,408,000 included in retained earnings is non distributable until the investment property is disposed off.

BANK STATEMENT OF CHANGES IN EQUITY

	Note	Share capital KES'000	Revaluation reserve KES'000	Accumulated losses KES'000	Statutory reserve KES'000	Fair value reserve KES'000	Total KES'000
At 1 January 2023		3,719,530	445,540	(3,880,310)	781,063	7,486	1,073,309
Loss for the year		-	-	(421,328)	-	-	(421,328)
Other comprehensive income		-	-	-	-	-	-
Transfer of excess depreciation	35	-	(14,380)	14,380	-	-	-
Deferred tax on excess depreciation	35	-	4,314	(4,314)	-	-	-
Transfer to statutory reserve	36	-	-	47,385	(47,385)	-	-
At 31 December 2023		3,719,530	435,474	(4,244,187)	733,678	7,486	651,981
At 1 January 2024		3,719,530	435,474	(4,244,187)	733,678	7,486	651,981
Prior year opening balance adjustment		-	-	(2,567)	-	-	(2,567)
Loss for the year		-	-	(163,789)	-	-	(163,789)
Transfer of excess depreciation	35	-	(14,380)	14,380	-	-	-
Deferred tax on excess depreciation	35	-	4,314	(4,314)	-	-	-
Transfer to statutory reserve	36	-	-	(50,295)	50,295	-	-
At 31 December 2024		3,719,530	425,408	(4,450,772)	783,973	7,486	485,625

The fair value gain on investment property of KES 425,408,000 included in retained earnings is non distributable until the investment property is disposed off.

	Note	2024 KES'000	2023 KES'000
CASH FLOWS GENERATED FROM OPERATIONS			
Cashflows (used in) generated from operations	38 (a)	**(1,070,432)**	(994,898)
Tax paid	19©	(15,842)	(17,495)
Net cashflows (used in) operating activities		**(1,086,274)**	(1,012,393)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	22	(12,504)	(18,625)
Right of use addition	**28 ©**	**(35,874)**	**-**
Proceeds on sale of property and equipment		45	131
Purchase of intangible assets	23	(2,759)	(32,168)
Net cash (used in) investing activities		**(51,092)**	(50,662)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of interest portion on lease liability	28(b)	(30,192)	(30,567)
Net cash (used in) financing activities		(30,192)	(30,567)
MOVEMENT IN CASH AND CASH EQUIVALENTS DURING THE YEAR		(1,167,558)	**(1,093,622)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		(2,799,686)	(1,706,064)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	38(b)	(3,967,244)	(2,799,686)

	Note	2024 KES'000	2023 KES'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows (used in) generated from operations	38(a)	**(1,068,345)**	(998,119)
Tax paid	19(c)	(12,929)	(14,274)
Net cash flows (used in) operating activities		**(1,081,274)**	(1,012,393)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in subsidiary	**33**	**(5,000)**	**-**
Right of use addition	**28C**	**(35,874)**	**-**
Purchase of property and equipment	28	(12,504)	(18,625)
Proceeds on sale of property and equipment	16 & 28	45	131
Purchase of intangible assets	29	(2,759)	(32,168)
Net cash used in investing activities		**(56,092)**	(50,662)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of interest portion on lease liability	28(b)	(30,192)	(30,567)
Net cash used in financing activities		(30,192)	(30,567)
MOVEMENT IN CASH AND CASH EQUIVALENTS DURING THE YEAR		(1,167,558)	**(1,093,622)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		(2,799,686)	(1,706,064)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	38(b)	(3,967,244)	(2,799,686)

1. Reporting entity

Consolidated Bank of Kenya Limited and Subsidiary (The "Bank") together with its subsidiaries provides retail and corporate banking services and insurance agency services in Kenya. Consolidated Bank of Kenya Limited is the ultimate parent of the group.

The address of its registered office is as follows:
Consolidated Bank House, Koinange Street
P O Box 51133
Nairobi- 00200.

2. Basis of preparation

The consolidated and separate financial statements have been prepared in accordance with the historical cost basis except for equity instruments measured at fair value through other comprehensive income. For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements. The financial statements are presented in Kenya Shillings (KES) and all values are shown in Thousands Kenya Shillings (KES'000) except where otherwise indicated.

3. Statement of compliance

The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the Kenyan Companies Act 2015 and the Banking Act Cap 488. The preparation of financial statements in conformity with IFRS requires use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying bank policies. The areas involving a higher degree of judgement or complexity or where assumptions and estimates are significant are disclosed in note 8.

4. Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis of the expected cash flows of financial assets and liabilities and contractual maturities as at the date of reporting is presented in note 10.8.2. Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when IFRS netting criteria are met.

Positions that are managed on a settle-to-market basis are transactions that are settled in cash before the close of the business day and therefore the balances are no longer recognised on the statement of financial position as an asset or a liability. The carrying amounts represent the called but not yet settled balances. Products that the Bank manages on a Settle-to-market basis include: exchange traded futures and options and over-the-counter interest rate and foreign currency swaps cleared through the bank.

5. Changes in accounting policies and disclosures

5.1 New and amended Standards and interpretations

Several other amendments and interpretations apply for the first time in 2023, but do not have an impact on the financial statements of the Group. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

The following amendments became effective during the period:

Classification of Liabilities as Current or Non-current(Amendment to IAS 1)	1 January 2024
Lease Liability in a Sale and Leaseback(Amendment to IFRS 16)	1 January 2024
Non-current Liabilities with Covenants (Amendments to IAS 1)	1 January 2024
Amendment to IFRS 16 – Leases on sale and leaseback	1 January 2024
Amendment to IAS 1 – Non-current liabilities with covenants	1 January 2024
Amendment to IAS 7 and IFRS 7 - Supplier finance	1 January 2024

5. Changes in accounting policies and disclosures (continued)

5.1 New and amended Standards and interpretation (continued)

Standards issued but not yet effective

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

New standards or amendments	Effective for annual period beginning or after
Amendments to IAS 21 Titled - lack of Exchangeability	1 January 2025
Presentation and Disclosure in Financial Statements (IFRS 18)	1 January 2027
Subsidiaries without Public Accountability(Amendment to IFRS 16)	1 January 2027
Amendments to the classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)	1 January 2027

None of the standards and interpretations listed above are expected to have a significant impact on the Group's financial statements when they become effective.

6 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank as at 31 December 2024. Consolidated Bank consolidates a subsidiary when it controls it. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including; the purpose and design of the investee, the relevant activities and how decisions about those activities are made and whether the Bank can direct those activities, contractual arrangements such as call rights, put rights and liquidation rights, whether the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Bank's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Bank are eliminated in full on consolidation. Disclosures for investment in subsidiaries, structured entities, securitisations and asset management activities are provided in note 40.

Investments in subsidiary companies are stated at cost less impairment loss where applicable. The dormant subsidiaries listed in note 39 have no assets and liabilities and are at nil value.

7 Material Accounting Policy Information

7.1 Interest income and expense

Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis. Previously unrecognised interest revenue of a cured credit impaired financial asset are recognised as a reversal of an impairment loss.

The average effective interest on financial assets held at amortised cost and loans and advances to customers are disclosed under notes 23 and 24 respectively.

7.2 Fees and commissions income and other fees and commissions expense

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract.

When the Bank provides a service to its customers, consideration is recovered immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time

7 Material Accounting Policy Information (continued)

7.2 Fees and commissions income and other fees and commissions expense (continued)

Services provided where the Bank's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the acquisition of shares or other securities, or the purchase or sale of businesses, brokerage and underwriting fees The Bank typically has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

7.3 Property, Equipment, Intangible assets and Right of use Assets (Leases)

7.3.1 Property and equipment

Property and equipment are stated at cost (or as professionally re-valued from time to time where applicable), excluding costs of day to-day servicing, less accumulated depreciation and any accumulated impairment losses respectively. Cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use and directly attributable to the acquisition of the asset. The Bank's policy is to regularly revalue property and equipment at least every five years to ensure that the carrying amount is not materially different from its fair value.

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

Any increase arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to profit or loss. As disclosed in note 28, the group revalued its Land and buildings in December 2020 by an independent Valuer - Claytown Valuers Limited.

Addition and disposal

The addition and disposal or decommissioning of property and equipment and intangible assets is done on the date of the acquisition and the date of the disposal respectively. The assets are removed from the statement of financial position and the register on the disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss which is difference between the proceeds and the carrying amount is recognised in the profit and loss.

Right of use

Right-of-use assets are depreciated on a straight-line basis over the lease term.

Depreciation

Depreciation is calculated on a straight-line basis at annual rates estimated to write off the cost of each asset or the revalued amounts, to its residual values over its estimated useful life as follows:

Fixtures, fittings, equipment & ATMs	5 years
Leasehold improvements	5 years
Computers	3 years
Motor vehicles	4 years
Buildings	40 years or land lease period if shorter

Land is not depreciated as it is deemed to have an indefinite life.

The depreciation charge to profit and loss is based on the carrying amounts of the property and equipment. The excess of this charge over that based on the historical cost of the property and equipment is released each year from the revaluation surplus to retained earnings.

7.3.2 Intangible assets - computer software costs

Costs incurred on computer software are initially accounted for at cost and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Software is amortised on a straight-line basis and the amortisation expenses are recognised in profit or loss over its estimated useful life, from the date it is available for use. The estimated useful life of software for the current and comparative period is 5 years. The amortisation method, useful life and the residual value are reviewed at each financial year-end and adjusted, if appropriate.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation method or period, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.The carrying amount and amortisation are disclosed in note 29.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

7 Material Accounting Policy Information (continued)

7.3.3 Leases (Policy applicable after 1 January 2019)

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank as lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term (1-5 years).

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. Subsequent remeasurement of lease liability are treated as adjustments to the right of use assets. Any reduction in the carrying amount are recognised in the P&L.

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and a rranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

7.3.4 Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to re flect the terms and conditions of the lease, The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

7.3.5 Impairment of non-financial assets

At the reporting date, the Bank reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss.

If objective evidence on impairment losses exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. In cases where the asset is carried at revalued amount, the impairment loss recognised through, the profit and loss. In determining the recoverable amount, the Bank considers the higher of the fair value of the asset less costs to dispose, and value in use. In estimating value in use, the Bank is cognisant of the estimated future cash flows discounted to the present value using a pre-tax discount rate that is reflective of the current market assessment of time value of money and the risks specific to the asset itself.

Intangible assets with indefinite useful life are tested for impairment annually, and when there is indication that the asset may be impaired.

Where impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised, unless such asset is carried at revalued amount, in which case the reversal of the impaiment loss is treated as revaluation increase. rease.

7 Material Accounting Policy Information (continued)

7.4 Foreign currencies

7.4.1 Functional and presentation currency

The financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in Kenya shillings, which is the Bank's functional and presentation currency. Except as indicated, financial information presented in Kenya shillings has been rounded to the nearest thousand (KES'000).

7.4.2 Transactions and balances

Foreign currency transactions that are transactions denominated, or that requires settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised through profit or loss. All foreign exchange differences arising on non–trading activities are taken to other operating income/expense in the income statement, with the exception of the effective portion of the differences on foreign currency borrowings that are accounted for as an effective hedge against a net investment in a foreign entity. These differences are recognised in OCI until the disposal of the net investment, at which time, they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

7.4.3 Foreign exchange contracts

Foreign exchange contracts include open spot contracts and foreign exchange forward contracts. These instruments are valued by either observable foreign exchange rates and observable or calculated forward points. These forwards and spot contracts are in foreign exchange deals carried out in the interbank markets. These are held for risk management purposes and therefore include hedges that are economic hedges, but do not meet the hedge accounting requirements. Most of the trading portfolio is within the Bank's investment banking division (Treasury Department) and is treated as trading risk for risk management purposes.

7.5 Taxation

7.5.1 Current tax

Current income tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Current income tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

7.5.2 Deferred income tax

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

(i) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

7 **Material Accounting Policy Information (continued)**

7.5 **Taxation (Continued)**

7.5.2 **Deferred income tax (continued)**

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

(i) where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(iii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period. Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. The Finance Act 2015 varied the period to carry forward the tax losses from 5 years to 10 years. The group has not recognized deferred tax asset/Liability due to the loss making position.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the Kenya Revenue Authority (KRA), in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to tax authorities is included as part of receivables or payables in the statement of financial position.

7.6 **Financial instruments**

7.6.1 **Date of initial recognition**

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are disbursed to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

7.6.2 **Initial measurement of financial instruments**

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in notes 7.6.4 to 7.6.9.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

7 **Material Accounting Policy Information (continued)**

7.6 **Financial instruments (continued)**

7.6.3 **Day 1 profit or loss**

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

7.6.4 **Classification and measurement**

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in note 7.6.5
- FVOCI, as explained in note 7.6.8

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading.

7.6.5 **Due from banks, loans and advances to customers, financial investments at amortised cost**

The Bank measures *Due from banks, Loans and advances to customers and other financial investments* at amortised cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

An analysis of the gross carrying amount, maximum exposure to credit risk based on the bank's internal credit grading system and year end classification and the corresponding ECLs for the loans and advances to customers and balances due from other banking institutions is shown in note 10.6.

7.6.6 **Business model assessment**

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

7.6.7 **Solely payments of principal and interest test**

As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

7 Material Accounting Policy Information (continued)

7.6 Financial instruments (continued)

7.6.8 Equity instruments at FVOCI

The bank holds Kakuzi PLC quoted equity shares and has elected to classify this as equity instruments at FVOCI. Gains and losses on these equity instruments are recognised through other comprehensive income. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

The Bank presents non-recyclable items such as the movement in fair value of equity instruments at fair value through other comprehensive income (FVOCI) within the 'Fair value reserve' Such movements could also be presented within 'Retained earnings', but we believe showing them on a separate financial statement line provides greater transparency.

However, when such movements in fair value become "realised" upon derecognition of the equity instruments, the corresponding values are reclassified to retained earnings.

Classification and measurement

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

i) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

ii) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

7.6.9 Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy or
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

7.7 Impairment of financial assets

7.7.1 Overview of the expected credit loss – Expected Credit Loss Principle

The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee and letters of credit contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in note10.6.

7 Material Accounting Policy Information (continued)

7.7 Impairment of Financial assets (continued)

7.7.2 Expected Credit Losses (ECLs)

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its financial assets into Stage 1, Stage 2, Stage 3 as described below:

Stage 1: These are financial instruments that are performing in accordance with contractual terms and are expected to continue to do so since there are no signs or deterioration in credit risk or circumstances of the borrower from initial recognition. The bank recognises impairment allowance based on 12 months ECL.

Stage 2: These are financial instruments that have exhibited potential weaknesses which may if not corrected weaken the asset. The financial instruments have shown significant increase in credit risk and hence the bank recognises impairment allowance on the lifetime ECL.

Stage 3: These financial instruments that are credit impaired. The bank considers financial instruments credit impaired when the borrower is 90 days past due on contractual payments. Other qualitative considerations include existence of events and circumstances that indicates that the borrower is unlikely to pay.

Calculation of ECL

The key components and the mechanics behind the computation of the ECL are outlined below

Probability of Default (PD): The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The bank models its PDs at sector level using survival analysis over a defined period.

Exposure at Default (EAD): Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Loss Given Default (LGD): The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The PD and LGD investment in government securities and bonds are considered negligible, approximating 0%. These are risk free instruments and there is no historical loss situation.

Undrawn Loan commitments guarantees and letters of credit
When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. Details of the gross carrying exposure and the corresponding ECL are disclosed in note 10.6

7.7.3 Forward looking information

The bank has included a forward looking macro-economic overlay in its ECL model. The bank relies on the following economic indicators to develop the forward looking macroeconomic overlay. The bank adopts the following data sets for analysis of macroeconomic over lay;

Historical industry and Bank's non-performing loans
Historical macroeconomic statistics. The adopted macroeconomic factors include:

- Gross Domestic Product – GDP
- Inflation – consumer price index
- Exports
- Lending rates
- Exchange rates – effective

Forecast macroeconomic data
This is then regressed against Banks Non-performing loans in order to determine a relationship with the Macro economic variables.

7 Material Accounting Policy Information (continued)

7.7 Impairment of Financial assets (continued)

7.7.3 Forward looking information (continued)

To eliminate biasness and ensure there is probability weighting, the bank adopts base, worst and best-case forecasts adjustment factors to obtain a probability weighted PD. The weights are determined based on coefficient of determination (R2). R2 provides the Base while an even split of 1-R2 provides the weights for best and worst-case scenarios.

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral affects the calculation of ECLs. The fair value of collateral values is disclosed in note 10.6.

7.7.4 Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

Financial assets whose original contractual terms have been modified, including those loans subject to forbearance strategies, are modified instruments. Modifications may include changes to the tenor, cash flows and or interest rates among other factors.

Where derecognition of financial assets is appropriate, the newly recognised residual loans are assessed to determine whether the assets should be classified as purchased or originated credit impaired assets (POCI).

Where derecognition is not appropriate, the gross carrying amount of the applicable instruments is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets). The difference between the recalculated values and the pre-modified gross carrying values of the instruments are recorded as a modification gain or loss in the income statement to the extent that an impairment loss has not already been recorded.

Gains and losses arising from modifications for credit reasons are recorded as part of credit impairment. Modification gains and losses arising for non-credit reasons are recognised either as part of credit impairment or within income depending on whether there has been a change in the credit risk on the financial asset subsequent to the modification. Modification gains and losses arising on financial liabilities are recognised within income.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially through sale all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, such as whether the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

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 the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement to the extent that an impairment loss has not already been recorded.

7.7.5 Write off

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery i.e. after exhausting all recovery efforts. If the amount to be written off is greater than the accumulated loss allowance, the difference is charged to the profit and loss account. Any subsequent recoveries are recognised as income through the profit and loss account.

7 Material Accounting Policy Information (continued)

7.7 Impairment of Financial assets (continued)

7.7.6 Revolving credit facilities

The Bank's product offering includes a variety of corporate and retail overdraft and revolving loan facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is five years for corporate and seven years for retail products. The interest rate used to discount the ECL for overdrafts is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation considers that many facilities are repaid in full each month and are consequently not charged interest.

7.8 Financial liabilities and equity instruments issued by the Bank

a) Classification and measurement

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading.

b) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

c) Offsetting

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

7.9 Regulatory reserve

IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination or the financial asset is credit-impaired. However, Central Bank of Kenya prudential guidelines require the Bank to set aside amounts for impairment losses on loans and advances in addition to those losses that have been recognised under IFRS 9. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining profit or loss. These amounts are dealt with in the statutory reserve.

7.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances held with the Central Bank of Kenya and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

7 Material Accounting Policy Information (continued)

7.11 Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as off-balance sheet transactions and disclosed as contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities affected in future periods. In calculating ECL the three-stage impairment approach is extended to apply to cover the off balance sheet items. The bank considers the nominal contractual values of financial guarantees and letters of credit net of collateral in determining the loss given default LGDs. The nominal values for the undrawn loan commitments and overdrafts is determined using a credit conversion factor calculated using the monthly average utilization over the history of the available data. The nominal values of these instruments together with the corresponding ECL are disclosed in note 10.6.3.4.

7.12 Employee benefit costs

The Bank operates a defined contribution retirement benefit scheme for all its employees on permanent and pensionable terms. The scheme is administered by an independent investment management company and is funded by contributions from both the Bank and employees. Employees on short term contracts are entitled are entitled to gratuity which is paid at the end the contract.

The Bank also contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Fund Act. The obligations under the scheme are limited to specific contributions legislated from time to time.

The Bank's contributions in respect of retirement benefit costs are charged to the profit and loss in the year to which they relate.

Employee entitlement to leave not taken is charged to profit or loss as it accrues.

7.13 Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarized below:

Level 1 financial instruments:	Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
Level 2 financial instruments:	Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.
Level 3 financial instruments:	Those that include one or more unobservable input that is significant to the measurement as whole.

7 Material Accounting Policy Information (continued)

7.13 Determination of fair value (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as explained above.

The Bank's fair value methodology and the governance over its models includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. All new product initiatives (including their valuation methodologies) are subject to approvals by various functions of the Bank including the risk and finance functions. The responsibility of ongoing measurement resides with the business and product line divisions.

Once submitted, fair value estimates are also reviewed and challenged by the Risk and Finance functions. Fair value estimates are validated by;

- Benchmarking prices against observable market prices or other independent sources
- Re-performing model calculations
- Evaluating and validating input parameters

Model calibrations are challenged on a quarterly basis or when significant events in the relevant markets occur.
When relying on third-party sources (e.g., broker quotes, or other micro or macro-economic inputs), the Risk and Finance functions are also responsible for;

- Verifying and challenging the approved list of providers
- Understanding the valuation methodologies and sources of inputs and verifying their suitability for IFRS reporting requirements

For assets and liabilities that are recognized in the financial statements on a recurring basis, the group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets such as properties. The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

8. Critical judgements and key sources of estimation uncertainty

The preparation of the Bank's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Items with the most significant effect on the amounts recognized in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

8.1 Impairment losses on financial instruments

The measurement of impairment losses both under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The management discusses with the Finance and Credit Committee the ECL model and matters regarding significant increase in credit risk (SICR) and the impact on financial statements.

8.1 Impairment losses on financial instruments (continued)

The Bank's ECL calculations

Calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns Pds to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Development of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on Pds, EADs and LGDs
- Selection of forward-looking macroeconomics scenarios and their probability weighting, to derive the economic inputs into the ECL models. It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

8.2 Going concern assessment

Having made an assessment of the Group and the Bank's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt on the Group and the Bank's ability to continue as a going concern except as disclosed in note 9 to the financial statements.

8.3 Property, equipment and intangible assets

Critical estimates are also involved in the determination of fair values of property and equipment including the depreciation rates and residual values for property, equipment and intangible assets.

8. **Critical judgements and key sources of estimation uncertainty (continued)**

8.4 Contingent Liabilities

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation proceedings in Kenya arising in the ordinary course of the Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates. The details of the cases and resultant contingent liability are disclosed in note 41.

8.5 **Taxation**

The Bank is subjected to numerous taxes and levies by various government and quasi- government regulatory bodies. As a rule of thumb, the Bank recognises liabilities for the anticipated tax /levies payable with utmost care and diligence. However, significant judgement is usually required in the interpretation and applicability of those taxes /levies. Should it come to the attention of management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

8.5 Estimating the incremental borrowing

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

8.6 Effective Interest Rate (EIR) method

The Bank's EIR method, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioral life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behavior and life-cycle of the instruments, as well expected changes to the Bank's base rate and other fee income/expense that are integral parts of the instrument.

8.7 **Overdrafts and other revolving facilities**

The Bank's product offering includes a variety of corporate and retail overdraft facilities, in which the Bank has the right to cancel and/or reduce the facilities with sufficient notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over an estimated time frame that reflects its expectations of customer behaviour, the likelihood of default and its future risk mitigation procedures, which could include reducing or cancelling the facilities.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage.

The calculation of ECL, including the estimation of the expected period of exposure and discount rate is made, on an individual basis.

9 Going concern

During the year ended 31 December 2024, the Group incurred a net loss of KES 155 million (2023: KES 415 million) and the Bank incurred a net loss of KES 163 million (2023: KES 421). The accumulated losses as at 31 December 2024 were KES 4.425 billion for the Group (2023: KES 4.229 billion) and KES 4.450 billion for the Bank (2023: 4.244 billion).

The bank regulatory capital ratios as at 31 December 2024 were also below the regulatory minimum as illustrated below:

Prudential Capital Ratio	2024	2023	Minimum Capital Ratio
Core Capital to Deposits	(6.23%)	(4.90%)	8.00%
Core capital to Risk weighted assets	(5.81%)	(4.46%)	10.50%
Total Capital to Risk weighted assets	(5.81%)	(4.46%)	14.50%

These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and the Bank's ability to continue as a going concern.

The Bank's total assets grew by an impressive 15% to hit KES 17.5 billion from KES. 15.2 billion in 2023. Net advances declined by 5% to KES 8.5 billion from KES 8.9 billion with investment in Government securities growing by 69% to KES 6.4 billion from KES 3.8 billion recorded in 2023.Custonmer deposits grew by 10% from KES 10.7 billion in 2023 to KES 11.7 billion in 2024 due to an aggressive business growth strategy. Total operating income grew by 6% to Ksh.1.5 billion with 16% growth in the net interest income with major growth arising from investment in Government securities. Operating expenses grew by a marginal 2% with provisions for impairment declining by 47% to Ksh.235 Million from Ksh.439 million in 2023.

The Bank's regulatory capital ratios as at 31 December 2024 were however below the regulatory minimum with total capital / risk weighted assets at (5.81%) (2023: (4.46%)) against a minimum of 14.5% and core capital / risk weighted assets at (5.81%) (2023: (4.46%)) against a minimum of 10.5%.

The Board and management have put in place an aggressive growth and turnaround five-year strategic plan for the period 2023 to 2027. The strategy is anchored on five strategic pillars; business growth, brand positioning, people, asset quality and leveraging on technology will see the Bank turnaround to profitability.

Raising additional capital to finance growth and maintain healthy regulatory ratios is of paramount importance. The Board has been in constant engagement with the National Treasury the majority shareholder and other shareholders to inject additional capital in the bank to ensure compliance with the regulatory capital ratios. The National Treasury, the majority shareholder with 93.4%, is committed to continue to support the bank to meet regulatory capital ratios and implement the 2023-2027 strategic plan.

Based on the foregoing Management and the Board has assessed the Group and the Bank's ability to continue as a going concern and is satisfied that the Group and the Bank have the requisite resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis. This basis of preparation of these financial statements presumes that the Group and the Bank will realize its assets and discharge its liabilities in the ordinary course of business.

10. Risk management objectives and policies

10.1 Risk

The Bank defines risk as the possibility that the outcome of an action or event could bring about adverse impacts on the institution's capital or earnings. Such outcomes could either result in direct loss of earnings/capital or may result in imposition of constraints on bank's ability to meet its business objectives. Whilst risk is inherent in the Bank's activities, it is managed through an integrated risk management framework, including ongoing identification, measurement and monitoring, and subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, operational risk, strategic risk, reputational and regulatory & compliance risks.

10.2 Risk management structure

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The board has established a risk management committee comprising of three non-Executives Directors to assist in the discharge of this responsibility. The board has also established the Bank Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring risk management policies in their specified areas. These committees comprise executive members and report regularly to the board of Directors on their activities.

The Board provides written principles for overall risk management as well as written policies covering specific risk areas. 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 best market practices. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Audit 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. This committee is assisted in these functions by the Internal Audit Function. The Internal Audit Function undertakes reviews of risk management controls and procedures, the results of which are reported to the committee.

10.3 Risk mitigation and risk culture

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. In accordance with the Bank's policy, its risk profile is assessed before entering into hedging transactions which are authorised by the Assets Liability Committee (ALCO) of the bank. The effectiveness of all the hedge relationships is monitored by the Treasury function on a daily basis and ALCO on a monthly basis. It is the Bank's policy that in situations of ineffectiveness, it will enter into a new hedge relationship to mitigate risk on a continuous basis. The Bank actively uses collateral to reduce its credit risks.

10.4 Risk measurement and reporting systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all of the businesses is processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the Board Risk Committee, and the Executive Committee (EXCOM). The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptionsliquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board Risk Committee receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

10. **Risk Management objectives and policies (continued)**

10.5 **Excessive risk concentration**

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

The most critical type of risks to which the Bank is exposed to are financial risks which include:

a) Credit risk
b) Liquidity risk
c) Market risks

10.6 **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. Credit risk arises principally from the Bank's loans and advances to customers and other Banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances. The Bank is also exposed to other credit risks arising from its trading activities including derivatives.

The Bank enters into derivative transactions in forwards and spot contingents in the foreign exchange deals carried out the interbank markets. The derivatives are recorded at fair value. Derivatives held for risk management purposes include hedges that are economic hedges, but do not meet the hedge accounting requirements. Most of the trading portfolio is within the Bank's investment banking division (treasury) and is treated as trading risk for risk management purposes.

Credit risk is the single largest risk for the Bank's business and management carefully manages its exposure to credit risk. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

10.6.1 **Management of credit risk**

The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit and Finance Committee comprising four non-executive directors. The implementation of the credit risk policies and monitoring of the credit portfolio to ensure that risks are managed within acceptable standards is the responsibility of the credit committee comprising executive management.

The committee assisted by the credit department is responsible for the management 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 delegated to the head of credit and the credit committee while larger facilities require approval by the Board of Directors.
- Limiting concentrations of exposure to counterparties, geographies and industries for loans and advances.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank credit committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to branches to promote best practice throughout the Bank in the management of credit risk.

10. **Risk Management objectives and policies (continued)**

10.6.2 **Credit risk measurement**

In measuring credit risk of loans and advances to customers, the Bank takes into account the following factors:

- The probability of default: this is the possibility of the customer failure to pay over the stipulated period in the contract
- Exposure at default: current exposure on the borrower and the likely future development from which the Bank derives the exposure at default
- Estimated recovery ratio should default occur; this is the amount that can be recovered through sale of collateral

The Bank assesses the probability of default of individual borrowers using internal rating methods tailored to the various categories of the borrower. In assessing the credit quality of the customer the Bank takes into account the customers financial position, past experience and other industry specific factors. The credit risk measurements are embedded in the Bank's daily operational management and closely aligned to the Central Bank of Kenya loan classifications.

Risk limit control and mitigation policies

The Bank structures the level of credit risk it undertakes by placing limits on amounts of risk accepted in relation to one borrower or a group of borrowers. Such risks are monitored on a revolving basis and are subject to annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet inter est and capital repayment obligations and by changing limits where appropriate.

The Bank takes security for funds advances and implements guidelines on the acceptability of specific classes of collateral. To minimise credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances. Collateral held for other financial assets other than loans and advances depends on the nature of the instrument.

The primary purpose of acceptances, letters of credit and guarantees is to ensure funds are available to a customer as required. Guarantees and standby letters of credit carry the same risk as loans. Documentary and commercial letters of credit which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralised by the underlying goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisation to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

10. **Risk management objectives and policies (continued)**

10.6.3 **Impairment assessment**

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances tha t may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- A material decrease in the borrower's turnover, the loss of a major customer or cessation of signaficant part of operation
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application / protection
- The borrower is deceased.

It is the Bank's policy to considerer a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

10.6.3.1 **Loans and advances**

For loans and advances to various segments including retail and SME the borrowers are assessed based on the historical, current and forward-looking information including the following:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles. Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

10. **Risk management objectives and policies (continued)**

10.6.3.2 **Credit risk (Continued)**

Maximum exposure to credit risk before collateral held

	2024		2023	
	KES'000	%	KES'000	%
Credit Exposures				
On – balance sheet items				
Cash and balances with the CBK	524,915	3%	636,730	4%
Government securities	6,364,047	38%	3,759,019	23%
Balances due from banking institutions	430,740	3%	203,461	1%
Loans and advances to customers	8,513,879	50%	8,943,138	54%
Uncleared items and other assets	162,629	1%	194,793	1%
	15,996,210	94%	13,737,141	83%
Off-balance sheet items				
Acceptances and letters of credit	70,870	0.4%	27,877	0%
Guarantees	601,556	3.6%	1,026,974	6%
Undrawn formal stand-by facilities, credit lines and other Commitments to lend	263,337	1.6%	1,708,255	11%
	935,763	6%	2,763,106	17%
At 31 December	16,931,973	100%	16,500,247	100

The above represents the worst-case scenario of credit exposure for 31 December 2024 and 2023, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures, set out above are based on gross carrying amount as reported on the statement of financial position.

Loans and advances to customers comprise 50% (2023: 54%) of the total maximum exposure. The fair value of collateral held in respect of assets subject to credit risk as at 31 Decembers 2024 was KES 22,961,900 (2023: KES 26,008,099,828).

While collateral is an important mitigant to credit risk, the Bank's policy is to establish that loans are within the capacity of the customer to repay, as the primary way out. The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to Banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The Bank is confident that its policies and procedures provide sufficient safeguards against exposure on credit risk as shown on the table below.

10. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

10.6 Credit risk (Continued)

The table below shows the ECL charges on financial instruments for the year 2024 recorded in the income statement:

Credit loss expense	Stage 1		Stage 2		Stage 3	Total
	collective	individual	collective	individual		
Cash and balances with Central Bank of Kenya	-		-	-	-	-
Financial investments at amortised cost	-	-	-	-	-	-
Balances due from banking institutions	-	-	-	-	-	-
Loans and advances to customers	-	-	15,473	-	219,662	235,134
Total Impairment loss	-	-	15,473	-	219,662	235,134

The table below shows the ECL charges on financial instruments for the year 2023 recorded in the income statement:

Credit loss expense	Stage 1		Stage 2		Stage 3	Total
	collective	individual	collective	individual		
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-
Financial investments at amortised cost	-	-	-	-	-	-
Balances due from banking institutions	-	-	-	-	-	-
Loans and advances to customers	-	-	21,923	-	417,761	439,684
Total Impairment loss	-	-	21,923	-	417,761	439,684

Apart from the loans and advances to customers all other credit exposures are neither past due nor impaired.

Loans and advances to customers

Loans and receivables neither past due nor impaired

The Bank classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. These exposures will normally be maintained within approved product programs and with no signs of impairment or distress. These exposures are categorised internally as grade 1, that is, normal accounts in line with CBK prudential guidelines and a provision of 1 % is made and appropriated from revenue reserves to statutory reserves.

Loans where the contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank are classified as past due but not impaired. These exposures are graded internally as category 2 that is watch accounts in the Bank's internal credit risk grading system, in line with CBK guidelines.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Performing loans whose terms have been renegotiated are no longer treated as past due but are reclassified as performing loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered past due.

10. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

10.6 Credit risk (Continued)

Write-off policy

When a loan is uncollectible it is written off against the related provisions for loan impairment. Such loans are written off after all the necessary recovery procedures have been completed and the amount of loan has been determined.

The Bank adopted the rebuttable presumption approach by bucketing performing loans as follows; 0-30 Days - Stage 1, 30-90 Days past due - stage 2, >90 days past due - stage 3 loans. All financial assets are rated as normal on origination. PDs are modelled by segment based on a survival analysis by tracking points of defaults since origination to reporting date.

The table below shows the credit quality and the maximum exposure to credit risk based on the bank's internal credit rating system and year end stage classification. The amounts presented are gross of impairment allowances. An analysis of the changes in the gross carrying amount and the corresponding ECL allowance in relation to loans and advances to customers as at 31 December 2024 was as follows:

	Stage 1 KES '000	Stage 2 KES'000	Stage 3 KES '000	Total KES '000
Gross carrying amount as at 1 January 2024	6,595,155	587,755	3,471,063	10,653,973
New assets originated or purchased (excluding write off)	1,949,773	306,475	103,984	2,360,231
Assets derecognised or repaid	(2,151,426)	(161,593)	(238,274)	(2,551,293)
Transfer to stage 1	63,539	(61,558)	(1,981)	-
Transfer to stage 2	(290,718)	298,211	(7,493)	-
Transfer to stage 3	(271,891)	(80,713)	352,604	-
Changes to contractual due to modifications not resulting in derecognition				
Amounts written off	-	-	(42,466)	(42,466)
Foreign exchange adjustment				
As at 31 December 2024	5,894,433	888,577	3,637,437	10,420,446

10. **Risk management objectives and policies (continued)**

10.6 **Credit Risk (continued)**

An analysis of the changes in the gross carrying amount and the corresponding ECL allowance in relation to loans and advances to customers as at 31 December 2023 is as follows:

	Stage 1 KES '000	Stage 2 KES'000	Stage 3 KES '000	Total KES '000
Gross carrying amount as at 1 January 2023	7,078,427	879,488	2,844,810	10,802,725
New assets originated or purchased (excluding write off)	683,199	34,808	87,962	805,969
Assets derecognised or repaid	(601,614)	(218,127)	(60,271)	(880,012)
Transfer to stage 1	293,417	(282,308)	(11,109)	-
Transfer to stage 2	(529,879)	542,541	(12,662)	-
Transfer to stage 3	(328,395)	(368,647)	697,042	-
Changes to contractual due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	(74,709)	(74,709)
Foreign exchange adjustment	-	-	-	-
As at 31 December 2023	6,595,155	587,755	3,471,063	10,653,973

ECL for loans and advances

	Stage 1 KES '000	Stage 2 KES '000	Stage 3 KES '000	Total KES '000
ECL allowance as at 1 January 2024 as per IFRS 9	74,577	16,179	541,230	631,986
New assets originated or purchased	30,919	9,478	49,894	90,291
Assets derecognised or repaid (excluding write off)	(3,178)	(6,068)	(498,765)	(508,011)
Transfer to stage 1	(10,025)	(3,672)	-	(13,697)
Transfer to stage 2	(10,457)	4,320	-	(6,137)
Transfer to stage 3	(1,529)	(1,320)	507,036	504,187
impact of year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount	-	-	-	-
Changes to contractual cash flows due to modifications not resulting to derecognition	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	(42,466)	(42,466)
Foreign exchange adjustment	-	-	-	-
As at 31 December 2024 (note 25)	80,307	18,917	556,929	656,153

10. **Risk management objectives and policies (continued)**

10.6 **Credit Risk (continued)**

ECL for loans and advances

	Stage 1 KES '000	Stage 2 KES '000	Stage 3 KES '000	Total KES '000
ECL allowance as at 1 January 2023 as per IFRS 9	67,036	15,475	365,570	448,081
New assets originated or purchased	7,000	7,387	45,287	59,674
Assets derecognised or repaid (excluding write off)	(5,934)	2,799	(31,097)	(34,232)
Transfer to stage 1	1,084	1,919		3,003
Transfer to stage 2	9,302	(2,003)		7,299
Transfer to stage 3	(3,911)	(9,398)	175,660	162,351
impact of year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount	-	-	-	-
Changes to contractual cash flows due to modifications not resulting to derecognition	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	(14,190)	(14,190)
Foreign exchange adjustment	-	-	-	-
As at 31 December 2023 (note 25)	74,577	16,179	541,230	631,986

10, **Risk management objectives and policies (continued)**

10.6 **Credit risk (Continued)**

10.6.3.2 **Financial investments at amortized cost**

The table below summarizes the credit quality, the maximum exposures to credit risk based on the bank's internal credit risk rating system and year end stage classification. The amounts presented are gross of impairment allowance. Details of the bank internal grading system and policies on whether ECL allowances are calculated on an individual or collective basis are explained in note 10.6.3.3.

An analysis of the changes in the gross carrying amount and the corresponding ECL as at 31 December 2023 was as follows

	Stage 1 KES '000	Stage 2 KES '000	Stage 3 KES '000	**Total** KES '000
Gross carrying amount as at 1 January 2024	3,759,019	-	-	3,759,019
New assets purchased	2,605,018	-	-	2,605,018
Assets derecognised or matured	-	-	-	-
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Changes due to modifications not derecognised	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustment	-	-	-	-
At 31 December 2024	6,364,037	-	-	6,364,037

An analysis of the changes in the gross carrying amount and the corresponding ECL as at 31 December 2024 is as follows

	Stage 1 KES '000	Stage 2 KES '000	Stage 3 KES '000	Total KES '000
Gross carrying amount as at 1 January 2023	3,226,727	-	-	3,226,727
New assets purchased	890,907	-	-	890,907
Assets derecognised or matured	(358,615)	-	-	(358,615)
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Changes due to modifications not derecognised	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustment	-	-	-	-
At 31 December 2023	3,759,019	-	-	3,759,019

ECL on Financial investment at amortized cost as at 31 December 2024 and as 31 December 2023 rounds off to zero hence no tabular presentation. This also applies to ECL on government securities.

10, Risk management objectives and policies (continued)

10.6 Credit risk (Continued)

10.6.3.3 Dues from other banking institutions

The table below shows the credit quality and the maximum exposure to credit risk based on the bank and Group's rating system and year end classification.

An analysis of the changes in the gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1 KES '000	Stage 2 KES '000	Stage 3 KES '000	Total KES '000
Gross Carrying amount 1 January 2023	111,011	-	-	111,011
Net movement for the year	92,552	-	-	92,552
Assets derecognised or repaid (Excluding write offs)	-	-	-	-
Transfer stage 1	-	-	-	-
Transfer stage 2	-	-	-	-
Transfer stage 3	-	-	-	-
Changes to contractual cashflows due to modification not resulting to derecognition	-	-	-	-
Amount written off	-	-	-	-
Foreign currency adjustment	-	-	-	-
As at 31 December 2023	203,563	-	-	203,563

10, Risk management objectives and policies (continued)

10.6 Credit risk (Continued)

10.6.3.3 Dues from other banking institutions (continued)

	Stage 1 KES '000	Stage 2 KES '000	Stage 3 KES '000	Total KES '000
Gross Carrying amount 1 January 2024	203,563			203,563
Net movement for the year	227,390			227,390
Assets derecognised or repaid (Excluding write offs)	-	-	-	-
Transfer stage 1	-	-	-	-
Transfer stage 2	-	-	-	-
Transfer stage 3	-	-	-	-
Changes to contractual cashflows due to modification not resulting to derecognition	-	-	-	-
Amount written off	-	-	-	-
Foreign currency adjustment				
As at 31 December 2024	430,953	-	-	430,953

Corresponding ECL for dues from banking institutions

	Stage 1 KES '000	Stage 2 KES '000	Stage 3 KES '002	Total KES '000
ECL allowance as at 1 January 2023	100	-	-	100
Net movement for the year	2	-	-	2
Assets derecognised or repaid (Excluding write offs)	-	-	-	-
Transfer stage 1	-	-	-	-
Transfer stage 2	-	-	-	-
Transfer stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Changes to contractual cash flows due to modification not resulting to derecognition	-	-	-	-
Recoveries	-	-	-	-
Amount written off	-	-	-	-
Foreign currency adjustment	-	-	-	-
As at 31 December 2023	102	-	-	102

	Stage 1 KES '000	Stage 2 KES '000	Stage 3 KES '002	Total KES '000
ECL allowance as at 1 January 2024	102	-	-	102
Net movement for the year	111	-	-	111
Assets derecognised or repaid (Excluding write offs)		-	-	-
Transfer stage 1		-	-	-
Transfer stage 2		-	-	-
Transfer stage 3		-	-	-
Impact on year end ECL of exposures transferred between stages during the year		-	-	-
Changes to contractual cash flows due to modification not resulting to derecognition		-	-	-
Recoveries		-	-	
Amount written off		-	-	-
Foreign currency adjustment		-	-	
As at 31 December 2024	213	-	-	213

10 **Risk management objectives and policies (continued)**

10.6 **Credit risk (Continued)**

10.6.3.4 **Letters of credit and guarantees**

Letters of credit and guarantees (including standby letters of credit commit the bank to make payments in the event of a spec ific act generally to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. The nominal values of such commitments are listed below;

	2024 KES '000	2023 KES '000
Financial guarantees	601,556	1,026,974
Letters of credit	70,870	27,877
Other undrawn commitments	263,337	209,749
Total	935,763	1,264,600

The table below shows the credit quality and the maximum exposures to credit risk based on the bank's internal credit risk rating system and year end classification.

	Stage 1 KES '000	Stage 2 KES '000	Stage 3 KES '000	Total KES '000
Outstanding exposure as at 1 January 2023	1,243,481	14,571	7,530	1,265,582
New exposures	503,880	-	-	503,880
Exposures derecognised or matured/ lapsed (excluding write off)	(458,594)	(14,571)	(7,530)	(480,695
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2023	1,264,600	-	-	1,264,600

An analysis of the outstanding exposures and the corresponding ECLs are as follows

	Stage 1 KES '000	Stage 2 KES '000	Stage 3 KES '000	Total KES '000
Outstanding exposure as at 1 January 2024	1,264,600	-	-	1,264,600
New exposures	138,633	-	-	138,633
Exposures derecognised or matured/ lapsed (excluding write off)	(730,807)	-	-	(730,807)
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2024	672,426	-	-	672,426

10, **Risk management objectives and policies (continued)**

10.6 **Credit risk (Continued)**

10.6.3.4 **Letters of credit and guarantees (continued)**

The corresponding ECL

	Stage 1 KES '000	Stage 2 KES '000	Stage 3 KES '000	Total KES '000
ECL as at 1 January 2023	4,168	20	10	4,199
New exposures	1,713	15	-	1,728
Exposures derecognised or matured (excluding write offs)	(95)		-	(95)
Transfers to stage 1	(1,728)	306		(1,422)
Transfers to stage 2	(503)	(242)		(745)
Transfers to stage 3	1	118		119
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2023	3,557	218	10	3,775

	Stage 1 KES '000	Stage 2 KES '000	Stage 3 KES '000	Total KES '000
ECL as at 1 January 2024	3,775	-	-	3,775
New exposures	14,913	-	-	14,913
Exposures derecognised or matured (excluding write offs)	(9,676)	-	-	(9,676)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2024	9,012	-	-	9,012

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

	Loans and advances to customers 2024 KES'000	2023 KES'000
Against individually impaired financial assets	1,354,516	1,964,365
Against collectively impaired financial assets	16,913,716	18,778,152
Total	18,268,262	20,742,517

Settlement risk

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

Acceptance of settlement risk on free settlement trade requires transaction specific or counterparty specific approvals from the Bank's Credit Committee.

10. **Risk management objectives and policies (continued)**

10.7 **Concentration of risk**

Details of significant concentrations of the Bank's assets, liabilities and off-balance sheet items by industry groups are as detailed below:

	2024 KES'000	%	2023 KES'000	%
(i) Advances to customers- gross				
Manufacturing	31,536	-	54,392	-
Wholesale and retail	5,277,573	51	5,218,957	49
Transport and communication	418,408	4	472,219	4
Agricultural	13,359	-	13,719	-
Business services	220,324	2	172,329	2
Real estate	1,590,968	15	2,132,058	20
Other	2,868,278	28	2,590,299	24
	10,420,446	100	10,653,973	100
(ii) Customer deposits				
Central and local Government	1,209,993	10	970,014	9
Non-financial public enterprises	8,047	-	1,559	-
Co-operative societies	1,792,966	15	1,383,565	13
Insurance companies	157,000	1	41,504	-
Private enterprises and individuals	8,547,410	73	8,244,519	78
Non-profit institutions	514	-	24,201	-
	11,715,930	100	10,665,362	100
(iii) Off balance sheet items (Letters of credit and guarantees)				
Manufacturing	15,700	2	700	-
Wholesale and retail	531,324	79	705,982	67
Transport and communication	50	-	22,622	2
Business services	27,800	4	28,300	3
Building and Construction	81,354	13	293,419	28
Other	16,198	2	3,828	0
	672,426	100	1,054,851	100

10.8 **Liquidity risk**

Liquidity risk is the risk that the Group and Bank will encounter difficulty in meeting obligations from its financial liabilities when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments or other cash outflows.

Management of liquidity risk

The Assets and Liabilities Committee (ALCO) is responsible for the overall management and monitoring of the Bank's 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.

10. **Risk management objectives and policies (continued)**

10.8 **Liquidity risk (continued)**

10.8.1 **Management of liquidity risk (continued)**

Liquidity risk is addressed through the following measures:

- The treasury department monitors liquidity ratios on a daily basis against internal and regulatory requirements
- Day to day funding is managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers.
- The Bank invests in short term liquid instruments which can easily be sold in the market when the need arises.
- The Bank enters into lending contracts subject to availability of funds.
- The Bank has an aggressive strategy aimed at increasing the customer deposit base.
- The Bank borrows from the market through interbank transactions with other Banks and the Central Bank of Kenya for short term liquidity requirements.
- Investments in property and equipment are properly budgeted for and done when the Bank has sufficient cash flows.

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 the board. Daily reports covering the liquidity position of the Bank are regularly submitted to Asset and Liability Committee.

10.8.2 **Exposure to liquidity risk**

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from Banks, debt securities issued, other borrowings and commitments maturing within the next month. The Central Bank of Kenya minimum liquidity ratio is 20%. Details of the reported Bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

	2024	2023
At 31 December	25%	13%
Average for the period	21%	15%
Maximum for the period	29%	21%
Minimum for the period	13%	12%

10. Risk management objectives and policies (continued)

10.8 Liquidity risk (continued)

10.8.2 Liquidity risk based on undiscounted cash flows

The table below analyses the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities and non-derivative financial assets by expected maturity dates as at the date of the statement of financial position.

AT 31 December 2024	Up to 1 month KES'000	1 – 3 months KES'000	4 - 12 months KES'000	1 - 5 Years KES'000	Over 5 Years KES'000	Total KES'000
FINANCIAL ASSETS						
Cash and balances with the CBK	834,990	-	-	-	-	834,990
Balances due from banking institutions	430,953	-	-	-	-	430,953
Other assets	395,036					395,036
Government securities	-	-	1,639,281	2,574,766	2,150,000	6,364,047
Loans and advances to customers	2,032,085	206,420	361,629	2,797,808	3,115,937	8,513,879
Total financial assets	3,693,064	206,420	2,000,910	5,372,574	5,265,937	16,538,905
FINANCIAL LIABILITIES						
Balance due to Central Bank of Kenya	1,010,000	3,714,216	-	-	-	4,724,216
Deposits and balances due to banking institutions	17,268	-	-	-	-	17,268
Customer deposits	6,198,837	4,850,467	1,499,815	152	-	12,549,271
Other Liabilities	552,871	-	-	-	-	552,871
Total financial liabilities	7,788,976	8,564,683	1,499,815	152	-	17,843,626
Net liquidity gap	(4,085,912)	(8,358,263)	501,095	5,372,422	5,265,937	(1,304,721)
AT 31 December 2023						
Total financial assets	3,884,427	315,614	484,346	5,819,246	3,679,499	14,183,132
Total financial liabilities	9,694,334	4,177,660	1,217,221	4,171	-	15,093,386
Net liquidity gap	(5,809,907)	(3,862,046)	(732,875)	5,815,075	3,679,499	(910,254)

The above table shows the undiscounted cash flows on the Bank's financial assets and financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately. The table below shows maturity analysis for the loans and commitments (off-balance sheet commitments).

AT 31 December 2024	Up to 1 month KES'000	1-3 months KES'000	4-12 months KES'000	1-5 Years KES'000	Total KES'000
Guarantees	160,106	114,112	287,736	39,602	601,556
Acceptances and letters of credit	-	70,870	-	-	70,870
Undrawn formal stand-by facilities, credit lines and other commitments to lend	163,259	39,047	61,031		263,337
Total	323,365	224,029	348,767	39,602	935,763
AT 31 December 2023					
Guarantees	236,621	173,779	552,786	63,788	1,026,974
Acceptances and letters of credit	-	27,877	-	-	27,877
Undrawn formal stand-by facilities, credit lines and other commitments to lend	84,064	64,134	61,551	-	209,749
Total	320,685	265,790	614,337	63,788	1,264,600

10 **Risk management objectives and policies (continued)**

10.9 **Market risks**

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, equity prices, foreign exchange rates and credit spreads. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Bank separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios mainly arise from the interest rate management of the entity's retail and commercial Banking assets and liabilities.

10.9.1 **Management of market risks**

Overall responsibility of managing market risk rests with the Asset and Liability Committee (ALCO). The Treasury 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 Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken which is monitored daily.

10.9.2 **Exposure to interest rate risk**

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of interest-bearing financial instruments because of a change in market interest rates. The ALCO is the monitoring body for compliance with these limits and is assisted by Treasury Department in its day-to-day monitoring activities. Other assets are settled no more than 12 months after the reporting date. All the balances are interest bearing.

The table below summarises the Bank's exposures to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items because the interest rates are fixed.

AS AT 31 December 2024	Up to 1 month KES'000	1 – 3 months KES'000	4 - 12 months KES'000	1 - 5 'ears KES'000	Non-interest bearing KES'000	Total KES'000
FINANCIAL ASSETS						
Cash and balances with the CBK	-	-	-	-	834,990	834,990
Balances due from other banking institutions	430,953	-	-	-	-	430,953
Government securities	-	1,287,869	361,629	4,724,759	-	6,364,047
Loans and advances to customers	2,032,085	206,420	361,629	5,913,752	-	8,513,886
Total financial assets	2,463,038	1,494,289	713,041	10,638,511	834,990	16,143,869
FINANCIAL LIABILITIES						
Balance due to Central Bank of Kenya	1,010,000	3,714,216				4,724,216
Deposits and balances due to banking institutions	17,268					17,268
Customer deposits	2,423,016	4,460,482	1,347,543	137	3,502,020	11,733,198
Total financial liabilities	3,450,284	8,174,698	1,347,543	137	3,502,020	16,474,682
Interest rate sensitivity gap	(987,246)	(6,680,409)	(634,502)	10,638,374	(2,667,030)	(330,813)

10. Risk management objectives and policies (continued)

10.9 Market risks (continued)

Management of market risks

Interest rate/equity price volatility

Volatility measures the expected future variability of a market price. It is generally quoted as a percentage; a higher number represents a more volatile instrument, for which larger swings in price (or interest rate) are expected. Volatility is a key input in option-based models and is used to estimate the future prices for the underlying instrument (e.g., equity or interest rate). Volatility varies per instrument and in time and therefore, it is not viable to make reliable and meaningful general statements about volatility levels.

Certain volatilities, generally those relating to longer-term maturities are unobservable and are estimated by the Bank.

Sensitivity analysis on interest rates

An increase of 10 percentage point in interest rates for the period would have increased/ (decreased) profit or loss after tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2023.

	Loans and advances		Investments at amortised cost	
	2024	2023	2024	2023
	KES'000	KES'000	KES'000	KES'000
Interest income	89,899	84,124	36,712	26,279
Interest expense	(52,125)	(39,001)	(14,472)	(22,019)
Net change in interest	37,774	45,123	22,240	4,260

A decrease of 1 percentage point in interest rates for the period would have had an equal but opposite effect on the profit or loss and equity, on the basis that all other variables remain constant.

Recovery rates

Recovery rates reflect the estimated loss that the Bank will suffer given expected defaults. The recovery rate is given as a percentage and reflects the opposite of loss severity (i.e., 100% recovery reflects 0% loss severity).

In line with general market convention, loss severity is applied to asset-backed securities while recovery rate is more often used as pricing input for corporate or government instruments. Higher loss severity levels / lower recovery rates indicate lower expected cash flows upon the default of the instruments. Recovery rates for complex, less liquid instruments are usually unobservable and are estimated based on historical data. Currently, the Bank has no such investments.

Currency risk

The bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily.

10. **Risk management objectives and policies (continued)**

10.9 **Market risks (continued)**

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments categorised by currency.

AS AT 31 December 2024	USD KES'000	GBP KES'000	EURO KES'000	OTHERS KES'000	TOTAL KES'000
FINANCIAL ASSETS					
Cash and balances with Central Bank of Kenya	53,019	3,181	15,998	2,303	74,501
Balances due from Banking institutions	155,615	17,526	41,829	-	214,970
Loans and advances to customers	9	-	-	-	9
Total financial assets	208,643	20,707	57,827	2,303	289,480
FINANCIAL LIABILITIES					
Customer deposits	182,272	10,800	35,304	-	228,376
Total financial liabilities	182,272	10,800	35,304	-	228,376
NET ON BALANCE SHEET POSITION	26,371	9,907	22,523	2,303	61,104
NET OFF BALANCE SHEET POSITION	94,814	-	3	-	94,817
AT 31 December 2023					
Total financial assets	216,998	6,692	96,942	1,765	322,397
Total financial liabilities	216,890	3,750	63,435	-	284,075
NET ON BALANCE SHEET POSITION	108	2,942	33,507	1,765	38,322
NET OFF BALANCE SHEET POSITION	94,814	-	3	-	94,817

10. **Risk management objectives and policies (continued)**

10.9 **Market risks (continued)**

Market risks - sensitivity analysis

A principal part of the Bank's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling) and the sensitivity of future earnings and capital to varying foreign exchange rates. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. Consolidated Bank aims, through its management of market risk, to mitigate the impact of prospective interest rate movements and foreign exchange fluctuations which could reduce future earnings and capital.

For simulation modelling, the Bank uses a combination of scenarios relevant to local businesses and local markets. These scenarios are used to illustrate the effect on the Bank's earnings and capital.

Interest rate risks – increase/decrease of 10% in net interest margin

The Interest rate risks sensitivity analysis is based on the following assumptions.

- Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments.
- Changes in Market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognized at their fair value.
- The interest rate changes will have a significant effect on interest sensitive assets and liabilities and hence simulation modelling is applied to Net interest margins.
- The interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.
- The projections make other assumptions including that all positions run to maturity.

The analysis below sets out the impact on future net interest income of an incremental 10% parallel fall or rise in all yield curves as at 31 December 2024.

Assuming no management actions, a series of such appreciation would increase net interest income for 2024 by KES 93,810,000 (2023: KES 80,785,000), while a series of such falls would decrease net interest income for 2024 by KES 93,810,000 (2023: KES 80,785,000).

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.8 % (2023: 0.7%) and 0.8% (2023: 0.7%) respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.8% (2023: 0.7%) and 0.8% (2023: 0.7%) respectively.

Foreign exchange risks – appreciation/depreciation of KES against other currencies by 10%

The Foreign Exchange Risks sensitivity analysis is based on the following assumptions:

- Foreign exchange exposures represent net currency positions of all currencies other than Kenya shillings.
- The Currency Risk sensitivity analysis is based on the assumption that all currency positions are highly effective.
- The Base currency in which the Bank's business is transacted is Kenya shillings.

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies as at 31 December 2024.

10. **Risk management objectives and policies (continued)**

10.9 **Market risks (continued)**

Market risks - sensitivity analysis (continued)

Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below:

	Amount 31 December 2024 KES'000	Scenario 1 10% appreciation KES'000	Scenario 2 10% Depreciation KES'000
Loss before taxation	(147,618)	(53,808)	(241,428)
Adjusted Core Capital	(731,242)	(637,432)	(825,052)
Adjusted Total Capital	(731,242)	(637,432)	(825,052)
Risk Weighted Assets (RWA)	**12,576,699**	**12,576,699**	**12,576,699**
Adjusted Core Capital to RWA	(5.81(%)	(5.07(%)	(6.56(%)
Adjusted total Capital to RWA	(5.81(%)	(5.07(%)	(6.56(%)

	Amount 31 December 2023 KES'000	Scenario 1 10% appreciation KES'000	Scenario 2 10% Depreciation KES'000
Loss before taxation	(408,153)	(327,368)	(488,938)
Adjusted Core Capital	(524,657)	(443,872)	(605,442)
Adjusted Total Capital	(524,657)	(443,872)	(605,442)
Risk Weighted Assets (RWA)	11,763,665	11,763,665	11,763,665
Adjusted Core Capital to RWA	(4.46%)	(3.77%)	(5.15%)
Adjusted total Capital to RWA	(4.46%)	(3.77%)	(5.15%)

10.10 **Other risks**

Non-financial risk management disclosures:

10.10.1 **Strategic risk**

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation.

The Bank faces several strategic risks from its environment which include:

- Macro-economic changes.
- Competition from the financial industry and organisations providing similar services.
- Technological changes.
- Key legislative and regulatory changes.
- Major political events.
- Human capital or social/demographic trends and changes.
- Inadequate capitalisation

The Board of Directors is ultimately responsible for the overall generation and implementation of the Bank's strategy for purposes of enhancing shareholders' value. It has however delegated the implementation aspects to the Chief Executive Officer and the Senior Management team. The Board of Directors, with support of the Chief Executive Officer Senior Management, develops and implements a new strategic cycle every 5 years to cater for the next growth phase of the Bank.

10 Risk management objectives and policies (continued)

10.10 Other risks (continued)

Non-financial risk management disclosures (continued)

10.10.1 Strategic risk (continued)

The Chief Executive Officer supported by the (Executive Committee) EXCOM is responsible for the execution of the approved strategic objectives on a day to day basis and actively monitors business performance against these objectives through periodic reviews. The business carries out business performance reviews periodically but at a minimum on a monthly basis against pre-determined milestones and key performance indicators. The reviews are reported to the Board of Directors for information and advice, or action where significant deviations occur. These reports include identifying the key risks faced by the Bank and how they are being managed.

Each business head is responsible for ensuring that strategic initiatives are aligned to the overall strategy of the Bank and supported by the relevant and appropriate operating policies and programs that direct behaviour. They are also responsible for monitoring, managing and reporting on the effectiveness and risks of their business' strategic objectives, and the progress they have made towards achieving these. They oversee the direction and trends of significant current and emerging risks related to their business units and that mitigating actions are taken where appropriate.

The Chief Executive Officer co-ordinates an annual strategic planning process intended to align individual business strategies to overall enterprise level strategies as approved by the Board of Directors. They include a comprehensive review and evaluation of the business strategies, competitive positioning, financial performance, initiatives of strategic executions, and key business risks.

The Bank's financial and non-financial performance, including its key risks, is reported to the Board of Directors on a bimonthly basis for review and action, where necessary.

10.10.2 Non-financial risk management disclosures:

10.10.3 Operational risk

Operational Risk is "the risk that the Bank will incur direct or indirect loss due to an event or action causing the failure of technology, processes, infrastructure, personnel, and other risks having an operational impact". The impact of these risks can result in significant financial loss, reputational harm or regulatory censure and penalties.

The major operational risks faced by the Bank include:

- People and related issues such as staff retention, fraud, amongst others.
- Systems and processes changes related to the drive to meet our clients' needs.

The Board of Directors takes the lead in establishing the "tone at the top" which promotes a strong risk management culture. The Bank has also put in place a corporate culture that is guided by strong risk management and that supports and provides appropriate standards and incentives for professional and responsible behaviour.

10 **Risk management objectives and policies (continued)**

10.10.2 **Non-financial risk management disclosures (continued)**

10.10.3 **Operational risk (continued)**

All members of staff are responsible for the management and mitigation of Operational risks. This is reflected in the continuous control environment, risk awareness and management style. Specific roles or responsibilities are assigned for leading and managing the internal control environment through the following people:

- Board and CEO;
- Audit Committee;
- Internal Audit Department;
- Board Risk Management Committee;
- Risk Management Committee;
- Risk & Compliance Department;
- Business Operational Risk functions in corporate, Retail and SME ;
- Information Technology (IT) Steering Committee; and
- Business Heads and Operations Head.

Internal Audit is responsible for assessing compliance with operational risk policy and for reporting significant issues to the Board Audit Committee and the Board of Directors.

The Bank seeks to minimise actual or potential losses arising from Operational Risk failures. These include inadequately defined procedures or policies, systems failure, internal control flaws or breaches, insufficiently skilled staff, unmanageab le events or customer actions. To achieve this, the Bank ensures:

- Robust operational risk policy and procedures that reflects industry practice are put in place and operationalized. These include toolkits to help identify, assess, control, manage and report on key Operational Risks. Toolkits in the Operational Risk Procedures manual include inter alia:

  i) Framework for the Bank, businesses, and support functions to identify their major operational risks and mitigation plans;
  ii) Key control standards;
  iii) Indicators to identify Operational Risk; and
  iv) Incident and issues tracking mechanisms to identify causal factors and operational losses:

- All staff in business and support functions, are aware of their responsibilities for Operational Risk Management.
- Potential Operational Risk impact of Bank activities and products are considered at their outset with a view to minimising these as far as possible.
- There are structured processes to report control failures to designated individuals and escalate material issues to Risk Management Committee, Executive Committee (EXCOM) and Board Risk Management Committee as appropriate.
- Employees are given Operational Risk training appropriate to their roles.
- Employee and Bank assets are adequately protected.
- Workable Business Continuity Plans are established (including Disaster Recovery and Crisis Management procedures) to minimise the impact of unplanned events on business operations and customer service.
- The financial impact of operational losses is mitigated through the utilisation of insurance or other risk transfer mechanisms where appropriate.

10 Risk management objectives and policies (continued)

10.10.2 Non-financial risk management disclosures (continued)

10.10.3 Operational risk (continued)

10.10.4 Compliance (policy/legal/regulatory) risk:

Compliance risk is the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards, as well as from the possibility of incorrect interpretation of effective laws or regulations.

The Bank is committed to ensuring that its business activities are conducted in accordance with applicable laws and regulations, internal rules, policies and procedures, and ethical standards ("compliance laws, rules and standards"). The Bank has established appropriate policies, procedures and controls that will ensure effective compliance with laws, regulations and codes relevant to its businesses, customers and staff.

Business unit heads have the responsibility and accountability of managing regulatory and legal risks relating to their units on a day to day basis with assistance / advice and oversight from Legal and Compliance Department. The Risk and Compliance Department identifies and monitors the key risks and is responsible for ensuring that the day to day business controls comply with applicable legislation and are in line with best practice. Internal and external legal counsel work closely with business units to identify areas of existing and potential regulatory/legal risks and actively manage them to reduce the Bank's exposures.

Senior Management and the Board Risk Management Committee receive the Risk Management Department's opinions / reports on the strength of the Banks Compliance Risk Framework to enable them to determine whether it is under control and where not, tracks significant corrective actions to finality. Additionally, significant exposures under "for or against" litigation are reviewed periodically.

10.10.5 Reputational risk

Reputational risk is the potential that negative stakeholder impressions or perceptions, whether true or not, regarding the Bank's business practices, actions or inactions, will or may cause a decline in customer base, liquidity, and overall brand value. It is a resultant effect of all other risks highlighted in this report and therefore cannot be managed in isolation. Therefore, when all the other risks are managed well, this risk is substantially minimised.

The Bank's reputation is an invaluable and fragile asset that is broad and far reaching and includes image, goodwill and brand equity. Reputational risk management supports value creation and seeks to deal effectively with potential future events that create uncertainty.

Ultimate responsibility for this risk rests with the Board of Directors and Senior Management who examine the Bank's reputational risk as part of their regular mandate. They are assisted in this aspect by the Corporate Communications Department. Their purpose is to ensure that all products, services, and activities meet the Bank's reputational risk objectives in line with the Board of Director's approved appetite. The Bank's reputational risk strategy however cascades into the other Bank's policies procedures each level of management is responsible for the appropriateness of policies, processes and controls within its purview.

Senior Management and the Board of Directors receive periodic reports on the assessment of the Bank's reputational risk exposures that arise from its business activities so as to form a view on associated risks and implement corrective actions.

10. **Risk management objectives and policies (continued)**

10.11 Financial assets at fair value through other comprehensive income

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

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

Financial assets at FVTOCI:

31 December 2024	Note	Level 1 KES'000	Level 2 KES'000	Level 3 KES'000	Total KES'000
Quoted investments		8,354	-	-	8,354
31 December 2023					
Quoted investments		8,354	-	-	8,354

The above was valued at quoted bid prices in an active market (Nairobi Securities Exchange). Except as detailed above, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the statement of financial position approximate their fair values. This note provides information about how the Bank determines fair values of various financial assets and financial liabilities. Fair value of the Bank's financial assets and financial liabilities are measured at fair value on a recurrent basis. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in, the valuation technique(s) and inputs used):

Financial assets	Fair value as at 31/12/24 KES '000	Fair value as at 31/12/23 KES '000	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Quoted investments		8,354	Level 1	Quoted bid prices in an active market	N/A	N/A

There were no transfers between levels 1, 2 and 3 in the period (2023: none).

10.12 Price risk sensitivity

The Bank is exposed to price risk on quoted investment securities.

The table below summarizes the impact on increase in the market price on the Group's equity investments net of tax. The analysis assumes that the market prices had increased by 5% with all other variables held constant and all the Bank's equity instruments moved according to the historical correlation with the price:

	Impact on equity 2024 KES '000	2023 KES '000
Effect of increase on Equity	36	36

11 Capital management (Group and Bank)

Regulatory capital

The Banks objectives when managing capital are:

- To safeguard the Banks' ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for the other stakeholders.
- To maintain a strong capital base to support the current and future development needs of the business.
- To comply with the capital requirements set by the Central Bank of Kenya.

Capital adequacy and use of regulatory capital are monitored by management employing techniques based on the guidelines developed by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis.

The Central Bank of Kenya requires each Bank to:

a) Hold the minimum level of regulatory capital of KES 1 billion.
b) Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 10.5%;
c) Maintain a core capital of not less than 8% of total deposit assets; and
d) Maintain total capital of not less than 14.5% of risk weighted assets plus risk weighted off balance sheet items.

As further disclosed in note 9, the Bank had not complied with capital to risk weighted assets of not less than 14.5% and the Tier 1 capital to risk weighted assets of not less than % in 2024. In 2023 the Bank had not complied with capital to risk weighted assets of not less than 14.5% and the Tier 1 capital to risk weighted assets of not less than 10.5%

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

- Tier 1 capital, which includes ordinary share capital, non-cumulative irredeemable non-convertible preference shares, disclosed reserves such as share premiums, retained earnings, and 50% un-audited after tax profit less investment in subsidiaries conducting banking business, investments in equity of other institutions, intangible assets (excluding computer software) and goodwill.

- Tier 2 capital, which includes 25% revaluation surplus which have received prior CBK approval, subordinated debt, hybrid capital instruments or any other capital instruments approved by CBK.

11. CAPITAL MANAGEMENT (Continued)

The Bank's regulatory capital position at 31 December 2024 and 31 December 2023 was as follows:

	2024 KES'000	2023 KES'000
Tier 1 capital		
Ordinary share capital	2,998,400	2,998,400
Non-cumulative irredeemable shares	721,130	721,130
Share capital	3,719,530	3,719,530
Accumulated losses	(4,450,772)	(4,244,187)
Total	(731,242)	(524,657)
Tier 2 capital		
Revaluation reserves (25%)	-	-
General loan loss provision-statutory reserve (Maximum of 1.25% of RWA)	-	-
Total	-	-
Total regulatory capital	(731,242)	(524,657)
Risk-weighted assets	12,576,699	11,763,665
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 14.5%)	(5.81%)	(4.46%)
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 10.5%)	(5.81%)	(4.46%)

12. INTEREST INCOME (Group and Bank)

	2024 Group	2024 Bank	2023 Group	2023 Bank
Interest on loans and advances	1,284,268	1,284,268	1,201,772	1,201,772
Interest on Bank placements	9,122	9,122	5,242	5,242
Interest on investments at amortised cost	535,628	534,171	383,644	384,803
	1,829,018	1,827,561	1,591,817	1,590,658

13. INTEREST EXPENSE (Group and Bank)

	2024 Group	2024 Bank	2023 Group	2023 Bank
Interest on customer deposits	744,645	744,645	557,169	557,169
Interest on inter-bank borrowings	12,947	12,947	10,339	10,339
Interest on Central Bank of Kenya Repos	101,677	101,677	184,729	184,729
Interest on leases	30,192	30,192	30,567	30,567
	889,461	889,461	782,804	782,804

14. FEE AND COMMISSION INCOME

	2024 Bank KES'000	2024 Group KES'000	2023 Bank KES'000	2023 Group KES'000
Ledger related fees and commissions	31,263	31,263	33,026	33,026
Credit related fees and commissions	113,053	113,053	125,108	125,108
Transaction related fees	88,240	111,260	87,163	112,193
	232,666	255,576	245,297	270,327

15. FOREIGN EXCHANGE TRADING INCOME (Group and Bank)

Foreign exchange net income includes gains and losses from spot and forward contracts and translated foreign currency assets and liabilities.

	2024 KES'000	2023 KES'000
Gains on foreign exchange trading	68,937	132,943
Losses on foreign exchange trading	(10,331)	(80,891)
	58,606	52,052

16. OTHER OPERATING INCOME (Group and Bank)

Rental income	74,324	67,638
Remedial recoveries	2,786	3,668
Recoveries on loans and advances	168,501	181,070
Gain on disposal of property and equipment	45	85
Dividend income	299	521
Gain/(loss) on Treasury Bonds trading	7,731	(20,107)
Sundry income	280	59,263
	253,966	292,138

17. OPERATING EXPENSES

	2024 Bank KES'000	2024 Group KES'000	2023 Bank KES'000	2023 Group KES'000
Staff costs (note 18)	707,013	713,407	701,875	708,610
Directors' emoluments - Fees	14,690	14,851	27,360	27,790
- Other	25,181	25,181	25,269	25,269
Other Board expenses	422	422	1,051	1,051
Depreciation - Current year (note 28)	69,977	70,033	73,130	74,316
Amortisation of intangible assets (note 29)	30,300	30,300	28,259	28,698
Amortisation of operating lease (note 30)	170	170	170	170
Contribution to Kenya Deposit Insurance Corporation	20,656	20,656	21,539	21,539
Auditors' remuneration	6,438	6,938	4,712	5,118
Credit loss expense on letters of credit and guarantees	5,238	5,238	383	383
Other operating expenses*	515,515	520,680	482,060	489,748
	1,395,601	1,407,876	1,365,808	1,382,692

* Relates to all other operating expenses not captured under the other categories above.

18. STAFF COSTS

Salaries and wages	563,283	568,011	569,718	574,833
Training, recruitment and staff welfare costs	26,644	26,761	25,167	25,264
Pension contributions	31,397	31,602	35,342	35,610
Medical expenses	53,177	54,063	49,069	49,927
Staff insurance	6,266	6,378	5,768	5,967
Gratuity provision (note 32(a))	11,621	11,670	8,894	8,894
NSSF contributions	2,396	2,593	3,337	3,476
Affordable Housing Levy	7,002	7,103	4,580	4,639
Fringe Benefit Tax	5,226	5,226	-	-
	707,013	713,407	701,875	708,610

19. INCOME TAX

a).Taxation charge	2024 Group	2024 Bank	2024 Group	2023 Bank
Current tax based on the taxable profit for the year at 30% (2023:30%)	19,804	16,171	16,422	13,175
Prior year over provision- current taxation	(589)	-	438	465
De recognition of prior year deferred tax	-	-	-	-
	19,215	16,171	16,860	13,639
Reconciliation of expected tax based on accounting loss to tax charge				
b).Loss before taxation	(135,416	(147,618)	398,848)	(408,153)
Tax calculated at a tax rate of 30% (2023: 30%)	(40,625)	(44,285)	(119,654)	(122,446)
Tax effect of expenses not deductible for tax purposes*	52,556	52,512	67,721	68,188
Non-taxable income	(40,751)	(40,750)	(36,225)	(36,225)
Prior year over provision - current taxation	(589)	-	438	464
Deferred tax asset on tax losses not recognized	48,624	48,694	104,580	103,658
	19,215	16,171	16,860	13,639

The bank has not recognised deferred tax assets of KES 48 million (2023: KES 104 million) due to uncertainty of future earnings and profits against which the deferred tax assets can be offset.

19. INCOME TAX (CONTINUED)

	2024 KES'000 Group	2024 KES'000 Bank	2023 KES'000 Group	2023 KES'000 Bank
At 1 January	1,685	1,685	1,050	1,050
Charge for the year	(19,804)	(16,171)	(16,422)	(13,175)
Prior year (over)/under provision	589	-	(438)	(465)
Tax paid during the year	15,842	12,929	17,495	14,274
At 31 December	(1,688)	(1,557)	1,685	1,685

20. LOSS PER SHARE (Bank)

Loss per share is calculated by dividing the net loss attributable to shareholders by the number of ordinary shares in issue during the year.

Group	2024 KES'000 Group	2023 KES'000 Group
Loss for the year	(155,220)	(415,270)
Number of ordinary shares (number in thousands)	149,920	149,930
Loss per share		
Basic and diluted (KES)	(1.09)	(2.77)

There were no potentially dilutive shares outstanding as at 31 December 2024 and 31 December 2023, respectively. Diluted earnings per share are therefore the same as basic earnings per share.

21. CASH AND BALANCES WITH CENTRAL BANK OF KENYA (Group and Bank)

	2024 KES'000	2023 KES'000
Cash in hand	310,075	264,824
Balances with Central Bank of Kenya:		
- Cash ratio reserve	491,490	453,779
- Other balances (available for use by the Bank)	33,425	182,951
	834,990	901,554

Cash in hand and balances with Central Bank of Kenya are non-interest bearing. The cash ratio reserve is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December 2024 the cash ratio reserve requirement was 4.25% (2024: 4.25%) of all customer deposits held by the Bank. These funds are not available to finance the Bank's day to day operations.

22. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2024 Bank KES'000	2024 Group KES'000	2023 Bank KES'000	2023 Group KES'000
a) Balances due from banking institutions maturing within 90 days:				
Balances with correspondent banks	213,847	213,847	165,899	165,899
Balances with local banks	217,106	217,106	37,664	37,664
	430,953	430,953	203,563	203,563
As at 1 January	102	102	100	100
(Decrease)Increase in allowance for impairment	111	111	2	2
	213	213	102	102
Allowance for impairment as at 31 December				
Net carrying value	430,740	430,740	203,461	203,461
b) Deposits due to local banks	17,268	17,268	332,378	332,378
c) Borrowing from Central Bank of Kenya	4,724,216	4,724,216	3,118,544	3,118,544

Deposits with/from local banks as at 31 December 2024 represent deposits due to microfinance banks.

The borrowings from Central Bank of Kenya as at 31 December 2024 were REPOs:

- Tenure: The period of the borrowings was 3 months from 11 October 2024 to 13 January 2025-1,010,000,000, 3 months from 2 December 2024 to 3 March 2025-1,658,120,300 and 3 months from 11 December 2024 to 12 March 2025-2,056,096,000 (2023: The period of the borrowings was 3 months from 15 October 2023 to 15 January 2024-1,021,840,000, 3 months from 4 December 2023 to 4 March 2024-651,035,000, 3 months from 4 December 2023 to 4 March 2023-902,674,000 and 1 week from 28 December 2023 to 3 January 2024-542,995,000)
- Interest rate: the borrowing attracted an interest rate of between 0% and 11.25% (2023: interest rate of between 0% and 14.5%).
- Security: pledge of the Bank is only a portion of the Treasury Bonds whose fair value was KES.4,950,000,000 (2023: Security: pledge of the Bank is only a portion of the Treasury Bonds whose fair value was KES. 3,661,000,000).

23. FINANCIAL ASSETS AT AMORTISED COST

	2024 KES'000 Bank	2024 KES'000 Group	2023 KES'000 Bank	2023 KES'000 Group
GOVERNMENT SECURITIES				
Kenya Government Treasury bonds – at amortised cost	6,364,047	6,374,515	3,759,019	3,769,458
	6,364,047	6,374,515	3,759,019	3,769,458
The maturity profile of government securities is as follows:				
Less than 1 year	1,639,281	1,639,750	383,644	384,083
3 years to 5 years	2,574,766	2,574,765	1,875,375	1,875,375
Over 5 years	2,150,000	2,160,000	1,500,000	1,510,000
	6,364,047	6,374,515	3,759,019	3,769,458

The weighted average effective interest rate on treasury bonds was 13% (2023: 12%). As at 31 December 2024 a fair value of KES 4,950,000,000 (2023: KES 3,560,000,000) had been pledged to secure borrowings from Central Kenya.

24. LOANS AND ADVANCES TO CUSTOMERS (Group and Bank)

		2024 KES'000	2023 KES'000
a)	Commercial loans	5,179,131	5,483,929
	Overdrafts	835,586	858,458
	Mortgages	3,347,371	3,228,292
	Asset finance loans	676,013	736,313
	Staff loans	382,345	346,981
	Gross loans and advances	10,420,446	10,653,973
	Less:		
	Interest in suspense	(1,250,414)	(1,078,849)
	Impairment losses on loans and advances to customers (note 25)	(656,153)	(631,986)
	Net loans and advances to customers	8,513,879	8,943,138

The weighted average effective interest rate on loans and receivables as at 31 December 2024 was 13.2 % (2023: 13.9%).

Included in gross loans and advances to customers of KES 9,170,032,000 (2023: KES 9,575,123,000) are non-performing loans amounting to KES 2,387,022,000(2023: KES 2,392,203,000). These are included in the statement of financial position net of specific provisions of KES 656,929,000 (2023 :KES 541,219,697).

b) Analysis of gross loans and advances to customers by maturity

	2024	2023
Maturing:		
Within 1 year	2,032,085	2,403,452
Between 1 and 3 years	2,808,985	3,102,545
After 3 years	5,579,376	5,147,976
Loans and advances to customers	10,420,446	10,653,973

The concentration of advances to customers is covered under note 10.7.

25. EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES (Group and Bank)

	2024	2023
At 1 January	631,986	448,081
IFRS 9 Adjustment		
Increase in expected credit loss	235,134	439,684
Write offs	(42,466)	(74,709)
Reversals of expected credit loss	(168,501)	(181,070)
At 31 December	656,153	631,986
Collectively assessed impairment	99,224	90,756
Individually assessed impairment	556,929	541,230
	656,153	631,986

26. OTHER ASSETS

Other assets and other receivables that have fixed or determinable payments and that are not quoted in an active market are measured at amortised cost less any impairment loss.

	2024 KES'000 Group	2024 KES'000 Bank	2023 KES'000 Group	2023 KES'000 Bank
Clearing account	10,647	10,647	13,219	13,219
Prepayments	45,102	45,102	55,210	55,210
Rent receivable	21,970	21,970	20,321	20,321
Deposits for services	13,254	13,254	13,199	13,199
Others*	290,827	290,710	263,870	263,753
	381,800	381,683	365,819	365,702

* Included in others are Mpesa ,POS and Kenswitch balances.

27. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Group and Bank)

	2024 KES'000	2023 KES'000
At beginning of the year at January 1	8,354	8,354
Gain in market value of investment	-	-
At end of the year at December 31	8,354	8,354

The investment consists of 21,699 shares of Kakuzi Limited which are in the name of the Bank.

In accordance with IFRS 13, the fair value ranking of the investment is at level 1.

Tax has not been recognised in respect of the gain in market value of investment at this time as deferred tax has not been recognised as disclosed in note 19 (b).

28 (a).GROUP PROPERTY AND EQUIPMENT

	Land and buildings KES'000	Leasehold improvements KES'000	Motor vehicles KES'000	Fixtures, fittings, equipment & ATMs KES'000	Computers KES'000	Total KES'000
COST/VALUATION						
At 1 January 2023	732,500	428,224	23,827	383,580	157,025	1,725,156
Additions	-	-	-	829	17,796	18,625
Disposal	-	-	-	-	(416)	(416)
Write off	-	-	-	(15,631)	(9,695)	(25,316)
At 31 December 2023	732,500	428,224	23,827	368,778	164,720	1,718,049
At 1 January 2024	732,500	428,224	23,827	368,778	164,720	1,718,049
Additions	-		-	10,845	1,659	12,504
Disposal	-	-	-	(1,235)	(165)	(1,400)
Reclassification	-	-	-	(119)	119	-
At 31 December 2024	732,500	428,224	23,827	378,269	166,333	1,729,153
Comprising						
At cost	-	428,224	23,827	378,269	166,333	996,653
At valuation 2024	732,500	-	-	-	-	732,500
	732,500	428,224	23,827	378,269	166,333	1,729,153

28(a).GROUP PROPERTY AND EQUIPMENT (Continued)

	Land and buildings KES'000	Leasehold improvements KES'000	Motor vehicles KES'000	Fixtures, fittings, equipment& ATMs KES'000	Computers KES'000	Total KES'000
ACCUMULATED DEPRECIATION						
At 1 January 2023	34,126	424,227	19,412	350,080	147,839	975,684
Charge for the year	16,938	1,338	1,513	14,381	7,658	41,828
Reclassification	-	(3,762)	-	3,636	154	28
Write off	-	-	-	(15,631)	(9,685)	(25,316)
Elimination on disposal	-	-	-	-	(370)	(370)
At 31 December 2023	51,064	421,803	20,925	352,466	145,596	991,854
At 1 January 2024	51,064	421,803	20,925	352,466	145,596	991,854
Charge for the year	16,938	15	1,512	11,477	8,353	38,295
Reclassification	-	-	-	(115)	115	-
Elimination on disposal	-	-	-	(1,235)	(165)	(1,400)
At 31 December 2024	68,002	422,818	22,437	362,593	153,899	1,028,749
NET BOOK VALUE						
At 31 December 2024	664,498	6,406	1,390	15,676	12,434	700,404
At 31 December 2023	681,436	6,421	2,902	16,312	19,124	726,195

28(b). BANK PROPERTY AND EQUIPMENT

	Land and buildings KES'000	Leasehold improvements KES'000	Motor vehicles KES'000	Fixtures, fittings, equipment & ATMs KES'000	Computers KES'000	Total KES'000
COST/VALUATION						
At 1 January 2023	732,500	422,839	23,827	382,824	156,935	1,718,925
Additions	-	-	-	829	17,796	18,625
Transfer to/(from)subsidiary)	-	-	-	191	(209)	(18)
Transfer from WIP						
Write off	-	-	-	(15,590)	(9,596)	(25,186)
Disposal	-	-	-	-	(416)	(416)
At 31 December 2023	732,500	422,839	23,827	368,254	164,510	1,711,930
At 1 January 2024	732,500	422,839	23,827	368,254	164,510	1,711,930
Additions	-	-	-	10,845	1,659	12,504
Reclassification	-	-	-	(119)	119	-
Disposals	-	-	-	(1,235)	(165)	(1,400)
At 31 December 2024	732,500	422,839	23,827	377,745	166,123	1,723,034
Comprising						
At cost	-	422,839	23,827	377,745	166,123	990,534
At valuation 2024	732,500	-	-	-	-	732,500
	732,500	422,839	23,827	377,745	166,123	1,723,034

28(b). BANK PROPERTY AND EQUIPMENT (Continued)

	Land and buildings KES'000	Leasehold improvements KES'000	Motor vehicles KES'000	Fixtures, fittings, equipment& ATMs KES'000	Computers KES'000	Total KES'000
ACCUMULATED DEPRECIATION						
At 1 January 2023	34,126	419,933	19,412	349,691	147,751	970,913
Charge for the year	16,938	261	1,513	14,301	7,629	40,642
Elimination on disposal	-	-	-	-	(370)	(370)
Transfer to/(from) subsidiary	-	-	-	136	(180)	(43)
Reclassification	-	(3,762)	-	3,636	154	(28)
Write off	-	-	-	(15,590)	(9,596)	(25,186)
At 31 December 2023	51,064	416,432	20,925	352,174	145,388	985,983
At 1 January 2024	51,064	416,432	20,925	352,174	145,388	985,983
Charge for the year	16,938	-	1,512	11,435	8,353	38,238
Elimination on disposal	-	-	-	(1,235)	(165)	(1,400)
Reclassification	-	-	-	(115)	115	-
At 31 December 2024	68,002	416,432	22,437	362,259	153,691	1,022,821
NET BOOK VALUE						
At 31 December 2024	664,498	6,407	1,390	15,486	12,432	700,213
At 31 December 2023	681,436	6,407	2,902	16,080	19,122	725,947

Land and buildings were last revalued as at 31 December 2020, by Claytown Valuers Limited, independent valuers. Valuations were made on the basis of the open market value using the highest and best use valuation model resulting in a total valuation surplus of KES 113,850,000. The book values of the properties were adjusted to the revalued amounts and the resultant surplus was credited to the revaluation reserves.

Motor vehicles, fixtures fittings and equipment with a cost of KES 898,235,465 (2023 KES 866,170,797) were fully depreciated as at 31 December 2024. The notional depreciation charge on these assets would have been KES 198,721,820 (2023: KES 159,381,664).

In accordance with IFRS 13, the fair value ranking of the land and buildings is at Level 3 as the fair value measurement is derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices. There is no remeasurement recognised in profit or loss, no transfers from level 1 or level 2 and no purchases. Other categories of assets are carried at cost less accumulated depreciation.

28 (c). GROUP AND BANK RIGHT OF USE OF ASSETS

	Right of use of assets (rental space) KES'000
COST/VALUATION	
At 1 January 2023	379,578
Additions	-
At 31 December 2023	379,578
At 1 January 2024	379,578
Additions	35,874
At 31 December 2024	415,452
Comprising	
At cost	415,452
At valuation 2024	-
ACCUMULATED DEPRECIATION	
At 1 January 2023	158,140
Charge for the year	32,488
At 31 December 2023	190,628
At 1 January 2024	190,628
Charge for the year	31,739
At 31 December 2024	222,367
NET BOOK VALUE	
At 31 December 2024	193,085
At 31 December 2023	188,950

28 (c). GROUP AND BANK RIGHT OF USE OF ASSETS (Continued)

Set out below are the carrying amount of lease liability (included in the liabilities under note 32) and the movement during the period

	2024	2023
As at 1 January	230,864	253,409
Additions	35,874	-
Accretion of interest	30,192	30,567
Payments	(54,758)	(53,112)
As at 31 December	242,172	230,864

If the land and buildings were stated on the historical cost basis, their carrying amounts would be as follows:
--

	2024	2023
	KES'000	KES'000
At 1 January	99,471	103,992
Depreciation charge	(4,521)	(4,521)
At 31 December	94,950	99,471

29 (a). GROUP INTANGIBLE ASSETS

	Computer Software KES'000	Work in Progress KES'000	Total KES'000
COST/VALUATION			
At 1 January 2023	749,571	53,914	803,485
Additions	31,849	319	32,168
Transfer from WIP	10,055	(10,055)	-
Disposals	-	(43,578)	(43,578)
	791,475	600	792,075
At 31 December 2023			
At 1 January 2024	791,475	600	792,075
Additions	2,759	-	2,759
Transfer from WIP	600	(600)	-
Write-off			
At 31 December 2024	794,834	-	794,834
ACCUMULATED AMORTISATION			
	657,494	-	657,494
At 1 January 2023	28,698	-	28,698
Charge for the year	(28)	-	(28)
At 31 December 2023	686,164	-	686,164
At 1 January 2024	686,164	-	686,164
Charge for the year	30,300	-	30,300
Reclassification			
At 31 December 2024	716,464	-	716,464
NET BOOK VALUE			
At 31 December 2024	78,370	-	78,370
At 31 December 2023	105,311	600	105,911

29 (b).BANK INTANGIBLE ASSETS

	Computer Software KES'000	Work in Progress KES'000	Total KES'000
COST/VALUATION			
	746,573	53,914	800,487
At 1 January 2023	31,849	319	32,168
Additions	10,055	(10,055)	-
Write-off	-	(43,578)	(43,578)
At 31 December 2023	788,477	600	789,077
At 1 January 2024	788,477	600	789,077
Additions	2,759	-	2,759
Transfer from WIP	600	(600)	-
At 31 December 2024	**791,836**	-	**791,836**
ACCUMULATED AMORTISATION			
At 1 January 2023	654,933	-	654,933
Charge for the year	28,259	-	28,259
Reclassification	(28)	-	(28)
At 31 December 2023	683,164	-	683,164
At 1 January 2024	683,164		683,164
Charge for the year	30,300		30,300
At 31 December 2024	713,464		713,464
NET BOOK VALUE			
At 31 December 2024	78,373	-	78,373
At 31 December 2023	105,313	600	105,913

30. LEASEHOLD LAND (Group and Bank)

	2024 KES'000	2023 KES'000
COST		
At 1 January and 31 December	45,298	45,298
ACCUMULATED AMORTISATION		
At 1 January	39,509	39,339
Charge for the year	170	170
At 31 December	39,679	39,509
NET BOOK VALUE		
At 31 December	5,619	5,789

31. CUSTOMER DEPOSITS (Group and Bank)

	2024	2023
Current and demand accounts	3,484,752	3,406,024
Savings accounts	1,326,167	1,274,266
Fixed deposit accounts	6,905,011	5,966,567
Margins	-	18,505
	11,715,930	10,665,362

Maturity analysis of customer deposits:

	2024	2023
Repayable:		
On demand	4,810,919	4,698,795
Within one year	6,905,011	5,966,567
	11,715,930	10,665,362

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2024 was 6.5% (2023: 5.1%). Concentration of customers' deposits is covered under note 10.7.

32. OTHER LIABILITIES

	2024 KES'000	2024 KES'000	2023 KES'000	2023 KES'000
	Group	Bank	Group	Bank
Accrued expenses	114,845	114,845	50,409	50,409
Gratuity (note 32(a)	18,059	18,059	10,295	10,295
Tenants deposits	18,162	18,162	18,618	18,618
Cheques for collection	12,050	12,050	10,609	10,609
Sundry payables*	137,013	137,013	112,899	112,899
ECL provision for letters of credit and guarantees	9,012	9,012	3,775	3,775
Lease liability (note 28 (b))	242,172	242,172	230,864	230,864
	551,313	551,313	437,469	437,469

* Included in sundry payables are uncleared POS transactions, uncleared cheques and unclaimed balances

32. OTHER LIABILITIES (continued)

a) Gratuity	2024 KES'000 Group	2024 KES'000 Bank	2023 KES'000 Group	2023 KES'000 Bank
Balance as at 1 January	10,295	10,295	1,788	1,788
Paid	**(3,906)**	**(3,857)**	(387)	(387)
Charge for the year	11,670	**11,621**	8,894	8,894
Balance as at 31 December	18,059	**18,059**	10,295	10,295

33. SHARE CAPITAL (Group and Bank)

	2024 KES'000 Bank	2023 KES'000 Group	2023 KES'000 Bank	2023 KES'000 Group
a) Authorised:				
160,000,000 ordinary shares of KES 20 each (2023:160,000,000 ordinary shares of KES 20 each)	3,200,000	3,200,000	3,200,000	3,200,000
80,000,000, 4% non-cumulative irredeemable non-convertible preference shares of KES 20 each	1,600,000	1,600,000	1,600,000	1,600,000
	4,800,000	4,800,000	4,800,000	4,800,000
b) Issued and fully paid: 2024:Group-150,170,000;Bank-149,920,000 ordinary shares of KES 20 each36,056,500, 4% non-cumulative irredeemable (2023:149,920,000 ordinary shares of KES 20 each	2,998,400	3,003,400	2,998,400	2,998,400
Capital injection 36,056,500, 4% non-cumulative irredeemable) Non-convertible preference Shares of KES 20 each	721,130	721,130	721,130	721,130
	3,719,530	3,719,530	3,719,530	3,719,530

Non-convertible non-participating preference shares are entitled to receive a discretionary dividend before any dividend is declared to the ordinary shareholders. The preference shares have no right to share in any surplus assets or profits and no voting rights.

34. REVALUATION RESERVES (Group and Bank)

	2024 KES'000	2023 KES'000
At 1 January	435,474	445,540
Transfer of excess depreciation	(14,380)	(14,380)
Deferred tax on transfer of excess depreciation- Buildings	4,314	4,314
At 31 December	425,408	435,474

The revaluation surplus arises on the revaluation of freehold land and buildings. Where revalued land or buildings are sold, the portion of the revaluation surplus that relates to that asset and is effectively realised over the period in which this is transferred, is transferred directly to revenue reserves. The revaluation surpluses are non-distributable.

Tax has not been recognised in respect of the revaluation surplus at this time as deferred tax has not been recognised as disclosed in note 19 (b).

35. ACCUMULATED LOSSES

	2024 KES'000 Group	2024 KES'000 Bank	2023 KES'000 Group	2023 KES'000 Bank
At 1 January	(4,229,607)	(4,244,187)	(3,871,788)	(3,880,310)
Opening balance adjustment	-	(2,567)	-	-
Loss for the year	(155,220)	(163,789)	(415,270)	(421,328)
Transfer of excess depreciation	14,380	14,380	14,380	14,380
Deferred tax on transfer of excess depreciation	(4,314)	(4,314)	(4,314)	(4,314)
Transfer to statutory reserve	(50,295)	(50,295)	47,385	47,385
At 31 December	(4,425,056)	(4,450,772)	(4,229,607)	(4,244,187)

The retained earnings balance represents the amount available for dividend distribution to the shareholders of the Group and Bank and the balance maintained for purposes of strengthening the overall capital of the Group and Bank.

	2024 KES'000	2023 KES'000
36. STATUTORY RESERVE (Group and Bank)		
At 1 January	733,678	781,063
Transfer from/(to) accumulated deficit	50,295	(47,385)
At 31 December	783,973	733,678
37. FAIR VALUE RESERVE (Group and Bank)		
At 1 January	7,486	7,486
(Loss)/Gain in market value of quoted equity shares	-	-
At 31 December	7,486	7,486

The fair value gain shows the effects from the fair value measurement of equity instruments at fair value through other comprehensive income. Any gains and losses are not recognised in the profit or loss until the asset has been sold. Refer to note 7.6.8 for additional fair value disclosures.

38 (a) NOTES TO THE GROUP STATEMENT OF CASH FLOWS

		2024 KES'000	2023 KES'000
(a)	Reconciliation of loss before taxation to cash used in operations		
	Loss before taxation	(135,416)	(398,848)
	Adjustments for:		
	Depreciation of property and equipment (note 28)	70,033	74,316
	Amortisation of intangible assets (note 29)	30,300	28,698
	Amortisation of leasehold land (note 30)	170	170
	Interest expense on leases	**30,192**	30,567
	Gain on disposal of property and equipment	(45)	(85)
	Prior year adjust	**(589)**	**-**
	Loss on derecognition of intangible assets	-	43,578
	Impairment (credit)/charge on loans and advances	66,633	258,614
	Loss before working capital changes	63,414	37,010
	(Decrease)/Increase in cash ratio balance	(37,712)	23,480
	(Decrease)/Increase in other assets	(15,981)	63,058
	(Increase)/decrease in gross loans and receivables	362,626	192,490
	Increase in customer deposits	1,050,568	(690,456)
	Increase in other liabilities	113,844	(77,749)
	(Increase)/Decrease in treasury bonds	(2,605,057)	(542,731)
	Cash (used in)/from operations	1,068,296	(994,898)
(b)	Analysis of the balances of cash and cash equivalents as shown in the statement of financial position and notes		
	Cash on hand (note 21)	310,075	264,824
	Balances with Central Bank of Kenya –other (note 21)	33,425	182,951
	Balances with other banking institutions (note 22)	430,740	203,461
	Balance to Central Bank (note 22 (c))	(4,724,216)	(3,118,544)
	Deposits and balances to other banking institutions (note 22 (b))	(17,268)	(332,378)
		(3,967,244)	(2,799,686)

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or below, less advances from banks repayable within three months from the dates of the advances.

38 (b) NOTES TO THE BANK STATEMENT OF CASH FLOWS

(a) Reconciliation of loss before taxation to cash used in operations

	2024 KES'000	2023 KES'000
Loss before taxation	(147,618)	(408,153)
Adjustments for:		
Depreciation of property and equipment (note 28)	69,977	73,130
Amortisation of intangible assets (note 29)	30,300	28,259
Amortisation of leasehold land (note 30)	170	170
Interest expense on leases	30,192	30,567
Loss on derecognition of intangible assets	-	43,578
Prior year adjustment	(2,567)	-
Gain on disposal of property and equipment	(45)	(85)
Impairment (credit)/charge on loans and advances	66,633	258,614
Loss before working capital changes	47,042	26,080
Increase in cash ratio balance	(37,712)	23,480
Increase in other assets	(15,981)	63,081
(Increase)/decrease in gross loans and receivables	362,626	192,490
Increase in customer deposits	1,050,568	(690,456)
Increase in other liabilities	130,140	(80,502)
(Incraese)/Decrease in treasury bonds	(2,605,028)	(532,292)
Cash (used in)/from operations	(1,068,345)	(998,119)

b) Analysis of the balances of cash and cash equivalents as shown in the statement of financial position and notes

	2024	2023
Cash on hand (note 21)	310,075	264,824
Balances with Central Bank of Kenya –other (note 21)	33,425	182,951
Balances with other banking institutions (note 22(a)	430,740	203,461
Balance due to Central Bank (note 22 (c))	(4,724,216)	(3,118,544)
Deposits and balances to other banking institutions (note 22(b))	(17,268)	(332,378)
	(3,967,244)	(2,799,686)

39. INVESTMENTS IN SUBSIDIARIES

The consolidated financial statements include the financial statements of Consolidated Bank Limited and its subsidiaries. Consolidated Bank does not have any joint ventures or associates

The operations of the companies below were vested in the Bank in July 2002 and are all incorporated in Kenya.

i) Jimba Credit Corporation Limited
ii) Kenya Savings & Mortgages Limited
iii) Citizen Building Society
iv) Estate Building Society
v) Estate Finance Company of Kenya Limited
vi) Business Finance Company Limited
vii) Home Savings and Mortgages Limited
viii) Union Bank of Kenya Limited
ix) Nationwide Finance Company Limited

Further to the above, the bank incorporated, Conso Bancassurance Intermediary Limited, which commenced operations in January 2019.

All the above subsidiaries are wholly owned by the Bank. The subsidiaries except Conso Bancassurance Intermediary Limited are dormant and had a nil carrying value as at 31 December 2024 (2023: Nil).

40. OTHER SUPPLEMENTARY INFORMATION (Bank)

The bank's business comprises the following reportable units:

- Corporate Banking – This include banking services such as business current accounts, fixed deposits, overdrafts, loans, asset finance and other credit facilities in local and foreign currencies
- Retails & SME (Small medium size enterprises) – incorporating banking current accounts, savings accounts, individual fixed deposits, personal loans, retail and SME lending
- Treasury – operates the bank's fund management and investment activities.

Others comprise rental income and other incidental income from the rental space in the Bank's Head Office building at Consolidated Bank House.

The table below summarizes the breakdown of other supplementary information;

Profit or loss for the year ended 31 December 2024

	Corporate banking KES'000	Retail banking KES'000	Treasury KES'000	Other KES'000	Total KES'000
Net interest income	368,511	140,624	428,966	1,456	939,557
Other income	224,656	187,543	58,606	97,343	568,148
Operating expenses	(870,768)	(722,275)	(18,167)	(31,911)	(1,643,418)
Profit/(loss) before tax	(277,600)	(394,108)	469,406	66,888	(135,416)

40. OTHER SUPPLEMENTARY INFORMATION (Continued)

Profit or loss for the year ended 31 December 2023

	Corporate banking KES'000	Retail banking KES'000	Treasury KES'000	Other KES'000	Total KES'000
Net interest income	27,532	626,995	153,327	1,159	809,013
Net fee and commission	93,395	376,402	52,052	25,030	546,879
Other income	-	-	-	67,638	67,638
Operating expenses	(314,785)	(1,254,000)	(213,080)	(40,513)	(1,673,938)
Profit/(loss) before tax	(193,858)	(250,603)	(7,701)	53,314	(398,848)

Statement of financial position as at 31 December 2024

	Corporate banking KES'000	Retail banking KES'000	Treasury KES'000	Other KES'000	Total KES'000
Assets					
Short term funds	-	541,515	7,098,730	-	7,640,245
Loans	4,653,255	3,860,624	-	-	8,513,879
Other assets	-	708,132	-	664,500	1,372,632
Total assets	4,653,255	5,110,271	7,098,730	664,500	17,526,756
Liabilities and equity:					
Customer deposits	2,767,922	8,948,008	-	-	11,715,930
Borrowed funds	-	-	4,741,484	-	4,741,484
Other liabilities	-	553,001	-	-	553,001
Shareholders' funds	-	516,341	-	-	516,341
Total liabilities and equity	2,767,922	10,017,350	4,741,484	-	17,526,756

Statement of financial position as at 31 December 2023

	Corporate banking KES'000	Retail banking KES'000	Treasury KES'000	Other KES'000	Total KES'000
Assets					
Short term funds	-	468,286	4,406,187	-	4,874,473
Loans	1,781,689	7,161,449	-	-	8,943,138
Other assets	-	720,786	-	681,917	1,402,703
Total assets	1,781,689	8,350,521	4,406,187	681,917	15,220,314
Liabilities and equity:					
Customer deposits	2,748,785	7,916,577	-	-	10,665,362
Borrowed funds	-	-	3,418,544	-	3,418,544
Other liabilities	-	469,847	-	-	469,847
Shareholders' funds	-	666,561	-	-	666,561
Total liabilities and equity	2,748,785	9,052,985	3,418,544	-	15,220,314

41. CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS (Bank)

a) Contingent liabilities

In common with other financial institutions, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

	2024 KES'000	2023 KES'000
Acceptances and letters of credit	70,870	27,877
Forward and spot	143,250	158,400
Guarantees	601,556	1,026,974
	815,676	1,213,251

Litigations against the bank

Nature of contingent liabilities:

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

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

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

Concentrations of contingent liabilities are covered under note 10.7(iii).

Litigations against the Bank relate to civil suits lodged against the Bank by customers and employees in the normal course of business. The likely outcome of these suits cannot be determined as at the date of signing these financial statements. The Directors, however, do not anticipate that any material liability will accrue from the pending suits.

b) Commitments to extend credit

	2024 KES'000	2023 KES'000
Other commitments to lend	584,905	484,958
Undrawn formal stand-by facilities and credit lines	263,337	209,749

Commitments to extend credit are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation to extend credit by giving reasonable notice to the customer.

c) Capital commitments

	2024 KES'000	2023 KES'000
Authorised but not contracted for	112,880	516,360

Capital commitments relate to; investment in ITSM system, Enterprise External Backup Solution, SIEM implementation ,digital system upgrade, upgrade of servers and replacement of computers, furniture and equipment.

41. CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS (Continued)

d) Operating lease commitments

Rental income earned during the year was KES 74,324,000(2022– KES 67,638,000). At the reporting date, the Bank had contracted with tenants for the following minimum future lease receivables:

	2024	2023
The Bank as a lessor:	KES'000	KES'000
Within one year	52,096	62,601
In the second to fifth year inclusive	168,763	150,108
After five years	13,811	5,312
	234,670	218,021

Operating leases relate to the buildings and are negotiated for an average term of 6 years, with the rentals being reviewed every two years and hence classified as operating leases. The leases are cancellable with a penalty when the tenants do not give three months' notice to vacate the premises.

All operating lease contracts contain market review clauses in the event that the lessor exercises its option to renew. The lessees do not have an option to purchase the property at the expiry of the lease period. The operating lease contracts are cancellable.

e) Foreign exchange contracts

The Bank enters into derivatives for trading and risk management purposes, as explained in note 7.4.3 in the Summary of significant accounting policies. The Bank may take positions with the expectation of profiting from favourable movements in prices, rates or indices. The trading portfolio is within the Bank's investment banking division (treasury) and is treated as trading risk for risk management purposes. Derivatives held for risk management purposes include hedges that are economic hedges, but do not meet the hedge accounting requirements. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts.

The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument (being foreign currency, reference rate or index). The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk.

	Carrying value assets	Carrying value liabilities	Notional amount
At 31 December 2024	KES'000	KES'000	KES'000
Derivatives in economic hedge relationships:			
Foreign exchange contracts	1,576		143,250
At 31 December 2023			
Foreign exchange contracts	1,742	-	158,400

Forwards and spot contingents are the foreign exchange deals carried out in the interbank markets.

42. RELATED PARTY TRANSACTIONS (Group and Bank)

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Placings are made in the Bank by Directors, their associates and companies associated to Directors. Advances to customers at 31 December 2024 include advances and loans to companies associated with the directors. Contingent liabilities at 31 December 2024 include guarantees and letters of credit for companies associated with the Directors.

As at 31 December 2024 loans and advances to staff amounted to KES 382,345,000 (2023: KES 346,981,000). The loans and advances to related parties are performing and are adequately secured.

	Directors and employees	
	2024 KES'000	2023 KES'000
Customer deposits:		
At 1 January	43,956	33,438
Placed during the year	1,931,477	1,797,018
Net interest applied	2,520	1,981
Withdrawals	(1,927,641)	(1,788,481)
At 31 December	50,312	43,956

Payments made on behalf of Conso Bankassurance intermidiary Limited are as follows:

	2024 KES'000	2023 KES'000
Staff costs	6,394	6,736
Board expenses	161	430
Administrative expenses	4,593	5,535
	11,149	12,701
Investment in subsidiaries		
Conso Bankassurance intermidiary Limited	5,000	-
Due to subsidiaries		
Conso Bankassurance intermidiary Limited	20,074	3,778

No ECL has been recorded on amounts due from the subsidiary as these have been assessed and are not material.

Key management compensation

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

	2024 KES'000 Group	2024 KES'000 Bank	2023 KES'000 Group	2023 KES'000 Bank
Short term benefits				
Salaries and other benefits	127,274	127,274	128,004	128,004
Fees for services as Directors	14,851	14,690	28,841	28,410
	142,125	141,964	156,845	156,414

42. RELATED PARTY TRANSACTIONS (Continued)

Staff number

The total number of staff as at the end of the year was as follows:

	2024	2023
Number of staff	244	223

43. DISTINCTION BETWEEN CURRENT AND NON-CURRENT

The table below shows the distinction between current and non-current assets and liabilities

	GROUP			COMPANY		
As at 31 December 2024	Within 12 months KES '000'	After 12 months KES '000'	Total KES '000'	Within 12 months KES '000'	After 12 months KES '000'	Total KES '000'
Assets						
Cash and balances with Central Bank of Kenya	834,990	-	834,990	834,990	-	834,990
Balances due from banking institutions	430,953	-	430,953	430,953	-	430,953
Financial assets at amortised cost	1,639,750	4,734,765	6,374,515	1,639,750	4,724,766	6,364,047
Loans and advances to customers	2,600,127	5,913,752	8,513,879	2,600,127	5,913,752	8,513,879
Other assets	381,797	-	381,797	381,682	-	381,682
Investment in subsidiary	-	5,000	5,000	-	5,000	5,000
Equity instruments at fair value through other comprehensive income	-	8,354	8,354	-	8,354	8,354
Property and equipment and Right of Use Assets	-	893,490	893,490	-	893,299	893,299
Intangible assets	-	78,372	78,372	-	78,372	78,372
Prepaid operating lease rentals	-	5,620	5,620	-	5,620	5,620
Total Assets	5,887,403	11,639,353	17,526,756	5,891,820	11,624,163	17,515,982
Liabilities						
Deposits and balances due to banking institutions	17,268	-	17,268	17,268	-	17,268
Balances due to Central Bank of Kenya	4,724,216	-	4,724,216	4,724,216	-	4,724,216
Customer deposits	11,715,930	-	11,715,930	11,715,930	-	11,715,930
Tax payable	1,688	-	1,688	1,557	-	1,557
Due to subsidiary	-	-	-	-	20,074	20,074
Other liabilities	551,314	-	551,314	551,314	-	551,314
Total liabilities	17,010,415	-	17,010,415	17,010,285	-	17,010,285
Net	(10,123,012)	11,639,353	516,340	(11,118,465)	11,604,090	485,624

43. DISTINCTION BETWEEN CURRENT AND NON-CURRENT(CONTINUED)

As at 31 December 2023	GROUP Within 12 months KES '000'	GROUP After 12 months KES '000'	GROUP Total KES '000'	COMPANY Within 12 months KES '000'	COMPANY After 12 months KES '000'	COMPANY Total KES '000'
Assets						
Cash and balances with Central Bank of Kenya	901,554	-	901,554	901,554	-	901,554
Balances due from banking institutions	203,461	-	203,461	203,461	-	203,461
Financial assets at amortised cost	384,083	3,385,375	3,769,458	384,083	3,374,936	3,759,019
Loans and advances to customers	3,203,412	5,739,726	8,943,138	3,203,412	5,739,726	8,943,138
Other assets	365,819	-	365,819	365,702	-	365,702
Due from subsidiary	-	-	-	-	-	-
Equity instruments at fair value through other comprehensive income	8,354	-	8,354	8,354	-	8,354
Taxation recoverable	1,685	-	1,685	1,685	-	1,685
Property and equipment and Right of Use Assets	-	915,145	915,145	-	914,897	914,897
Intangible assets	-	105,911	105,911	-	105,913	105,913
Prepaid operating lease rentals	-	5,789	5,789	-	5,789	5,789
Total Assets	5,068,368	10,151,946	15,220,314	5,068,251	10,141,261	15,209,512
Liabilities						
Deposits and balances due to banking institutions	332,378	-	332,378	332,378	-	332,378
Balances due to Central Bank of Kenya	3,118,544	-	3,118,544	3,118,544	-	3,118,544
Customer deposits	10,665,362	-	10,665,362	10,665,362	-	10,665,362
Due to subsidiary	-	-	-	3,778	-	3,778
Other liabilities	437,469	-	437,469	437,469	-	437,469
Total liabilities	14,553,753	-	14,553,753	14,557,531	-	14,557,531
Net	(9,485,385)	10,151,946	666,561	(9,489,280)	10,141,261	651,981

44. CURRENCY

These financial statements are prepared in Kenya shillings thousands (KES'000) which is the Bank's functional and presentation currency.

45. SUBSEQUENT EVENTS

There were no material events after the reporting date which would require adjustments to, or disclosure in, these financial statements as at the date of the approval of the financial statements.

46. COMPARATIVE FIGURES

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

Appendix 1

Statement of Comparison Actual and Budget:

a) Statement of Financial Position

	Actual 31-Dec 2024	Budget 31-Dec 2024	Performance Variance	Variance	Remarks
ASSETS	KES'000	KES'000	KES '000	%	
Cash and balances with Central Bank of Kenya	834,990	431,717	403,273	93%	Due to improved liquidity position during the year under review
Balances due from banking institutions	430,740	1,121,086	(690,346)	-62%	Lower than budgeted transactions in the Nostro accounts and the inter-bank market
Financial assets at amortized cost	6,374,515	4,241,000	2,133,515	50%	Higher than budget due to investment of excess liquidity in this class of earning assets. This was to take advantage of higher returns during the period under review.
Loans and advances to customers	8,513,879	10,184,990	(1,671,111)	-16%	Lower demand for credit due to the difficult business-operating environment.
Other assets	381,797	332,715	49,082	15%	Due to increase in virtual money balances held as at year end.
Equity instruments at fair value through other comprehensive income	8,354	8,354	-		
Taxation recoverable	5,000	-	5,000		
Property and equipment and Right of Use Assets	893,490	908,163	(14,673)	-2%	Due to the fact that some planned projects had not been implemented by the end of the year.
Intangible assets	78,372	78,372	-	0%	
Prepaid operating lease rentals	5,620	5,620	-	0%	
TOTAL ASSETS	17,526,756	17,312,016	214,740	1%	Achieved the target
LIABILITIES AND SHAREHOLDERS' FUNDS					
LIABILITIES					
Deposits and balances due to banking institutions	17,268	1,048,785	(1,031,517)	-98%	Lower borrowing from the inter-bank market due to the tight liquidity in the market.
Balances due to Central Bank of Kenya	4,724,216	3,200,000	1,524,216	48%	Higher borrowing from the CBK to cover the planned borrowing from the inter-bank market
Customer deposits	11,715,930	12,291,038	(575,108)	-5%	Due to the tough business operating environment in which the customer wallets was squeezed.
Tax payable	1,688	-	-	-	
Other liabilities	551,314	444,968	106,346	24%	Increase in provisions in the year under review
TOTAL LIABILITIES	17,010,415	16,984,791	25,625	0%	
SHAREHOLDERS' FUNDS					
Share capital	3,724,530	3,724,530	-	0%	
Revaluation surplus	425,408	425,408	-	0%	
Accumulated deficit	-4,425,056	-4,614,172	189,116	-4%	Due to lower loses than budgeted
Statutory reserve	783,973	783,973	-	0%	
Fair value reserve	7,486	7,486	-	0%	
TOTAL SHAREHOLDERS' FUNDS	516,341	327,225	189,116	58%	
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	17,526,756	17,312,016	– 214,741	1%	

Appendix 1

b) Statement of Comprehensive Income

	Actual 31-Dec-24 KES'000	Budget 31-Dec-24 KES'000	Performance Variance KES'000	Variance %	
INTEREST INCOME	1,829,017	1,718,391	110,626	6%	Due to review of interest rates in the year to reflect the increased cost of funding
INTEREST EXPENSE	(889,461)	(923,502)	34,042	-4%	Due to decreased cost of borrowing as a result of improved liquidity in the year.
NET INTEREST INCOME	939,557	794,889	144,668		
Fee and commission income	255,576	325,252	(69,676)	-21%	Due to lower income from credit related lines due to lower demand for credit due to the economic conditions
Foreign exchange trading income	58,606	45,000	13,606	30%	Positive variance due to forex volatility experienced in the year enabling the Bank to make more gains
Other operating income	253,966	335,187	(81,221)	-24%	Due to lower recoveries from BDDs and
OPERATING INCOME	1,507,705	1,500,328	7,377		
Operating expenses	(1,407,875)	(1,731,726)	323,851	-19%	Due to prudent management of costs and other budgeted expenses were not incurred
Credit loss expense on loans and advances	(235,134)	(250,612)	15,478	-6%	Lower than budget due to lower demand for credit than budgeted and the Bank prudent decision to invest in less risky earning assets.
Credit loss expense on balances due from banking institutions	(111)	-	(111)		
LOSS BEFORE TAXATION	(135,416)	(482,010)	346,594	-72%	Exceeded the target by 72%
INCOME TAX CHARGE	(19,804)	(92,270)	72,466	-79%	
LOSS FOR THE YEAR	(155,220)	(574,280)	419,060	-73%	

APPENDIX 2: ISSUES RAISED BY THE AUDITOR GENERAL DURING PREVIOUS YEAR

Statement of Issue	Position in 2024	Outlook
Material uncertainty related to going concern The Bank continued to register poor performance in its operations. During the year under review, the Bank incurred a loss of Kshs.421,328,000 (2022 – Kshs.459,319,000), resulting into an accumulated loss of Kshs.4,244,187,000 (2022 – Kshs.3,880,310,000) as at 31 December, 2023. Further, as disclosed in Note 9 to the financial statements, the Bank's total capital to risk weighted assets ratio continued to decline to (4.46%) (2022 – (1.27 %) against a regulatory minimum capital ratio of 14.5%. The Group's current liabilities balance of Ksh. 14,553,753,000 exceeded current assets balance of Ksh. 14,193,469,000 by Ksh. 360,284,000 and the Bank's continued operations depend on Government support.	Though the implementation of the 2023 to 2027 strategic plan was negatively affected by lack of capital overall the Bank recorded improved performance in various parameters including; improved liquidity, growth in Balance sheet and growth in revenue. The Bank overall recorded improved performance compared to 2023 by cutting losses by 66% from the KES 398 million in 2023 to KES 135 in 2024. The total regulatory capital to risk weighted assets ratio was however (5.81%) (2023: (4.46)%) against a regulatory minimum ratio of 14.5%.	The Board and management have put in place an aggressive five-year strategic plan for the period 2023 to 2027. The strategy is anchored on five strategic pillars; business growth, brand positioning, people, asset quality and leveraging on technology to grow and turn around the Bank. Raising additional capital to finance growth and maintain healthy regulatory ratios is of paramount importance. The Board has been in constant engagement with the National Treasury the majority shareholder and other shareholders to resolve the issue of capital in the bank to ensure compliance with the regulatory capital ratios. The National Treasury, the majority shareholder with 93.4%, is committed to continue to support the bank.

Consolidated Bank
Growing with you

ANNUAL REPORT 2024

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