RAFIKI MICROFINANCE BANK LIMITED AND SUBSIDIARIES

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2024

forvis mazars

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Rafiki Microfinance Bank Limited and Subsidiaries
Corporate information
For the year ended 31 December 2024

Board of directors

Daniel Mavindu	Chairperson
Aggrey Jonathan K. Bett	Director
Stephen Mugwe Thuo	Director
Joseph Njuguna	Chief Executive Officer

Board audit committee

Stephen Mugwe Thuo	Chairperson
Aggrey Jonathan K. Bett	Member

Board risk committee

Aggrey Jonathan K. Bett	Chairperson
Stephen Mugwe Thuo	Member

Board credit committee

Aggrey Jonathan K. Bett	Chairperson
Joseph Njuguna	Chief Executive Officer (Member)
Stephen Mugwe Thuo	Member

HR,Strategy & Governance Committee

Aggrey Jonathan K. Bett	Chairperson
Daniel Mbuvi Mavindu	
Stephen Mugwe Thuo	
Joseph Njuguna	

Executive committee

Joseph Njuguna	Chairperson
Paul Karanja	
Diana Nyongesa	
Ken Watitu	
Antony Mloo	
Marclus Kariuki	
Tynka Otwoma	
John Mathiaka	
Stella Mbuli	
Hellen Mutunga	

Assets and liabilities committee

Joseph Njuguna	Chairperson
Paul Karanja	
Kennedy Watitu	
Tynka Otwoma	
Anne Ruo	
Antony Mloo	
Dennis Muthee	
Marclus Kariuki	
Joash Mekenye	
Nicholas Masavu	

Registered office

LR No. 209/2604
Rafiki House
Biashara Street
P.O Box 127500 - 00400
Nairobi

Company secretary

James Karanja Mwangi
Certified Public Secretary (Kenya)
P O Box 60240 – 00200
Nairobi

Principal bankers

SBM Bank (Kenya) Ltd
Riverside Mews
P O Box 34886 - 00100
Nairobi

Co-operative Bank Kenya Limited
Tom Mboya Branch
P O Box 10179 – 00400
Nairobi

National Bank of Kenya Limited
Moi Avenue Branch
P O Box 72866 – 00200
Nairobi

Equity Bank Kenya Limited
Moi Avenue Branch
P O Box 8180 – 00100
Nairobi

Central Bank of Kenya
Haile Selassie Avenue
P O Box 60000 - 00200
Nairobi

Housing Finance Bank
Westlands Branch
P O Box 30088 - 00100
Nairobi

Eco Bank Limited
Muindi Mbingu Street Branch
P O Box 49584 - 00100
Nairobi

Principal lawyers

J.K. Mwangi & Co. Advocates
5th Avenue Ngong Road
P O Box 9301 – 00300
Nairobi

Independent auditor

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Ngong Road,
P.O. Box 61120 - 00200
Nairobi City Square,
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I am pleased to present the Bank's Annual Report for the year ended 31st December 2024.

The past year has been marked by both opportunities and challenges in the financial sector, yet Rafiki Microfinance Bank has demonstrated remarkable resilience and adaptability. Our strategic focus, commitment to innovation, and dedication to customer-centric solutions have enabled us to navigate an evolving business landscape successfully.

Macroeconomic Overview

The global economy in 2024 continued to face uncertainties stemming from geopolitical tensions, persistent inflationary pressures, and fluctuating commodity prices. According to the World Bank, global growth remained moderate at approximately 2.5%, constrained by stringent monetary policies, supply chain disruptions, and high borrowing costs in

On the domestic front, Kenya's economy grew at an estimated rate of 5.3%, supported by a rebound in the agricultural sector, increased public infrastructure investments, and continued expansion in the service industry. Inflationary pressures persisted, driven by exchange rate volatility, elevated fuel prices, and increased cost of essential commodities. However, government interventions, including fiscal reforms and monetary policy adjustments, helped stabilize economic conditions and create a favorable business environment.

Despite these macroeconomic headwinds, the financial sector remained resilient. The demand for microfinance services grew as more businesses and individuals sought access to tailored financial solutions to support their growth and recovery. Rafiki Microfinance Bank remained steadfast in its mission to empower businesses and individuals by providing accessible and innovative financial products.

Business Performance & Strategic Initiatives

Customer growth and profitability

The strategic initiatives implemented by the bank to turnaround the business into profitability have started to bear fruits. These initiatives include aggressive debt collection and recovery, growth of trade finance and non funded income through superior customer offering and turnaround time. The bank also aligned its business segmentation, products and channels to address changing customers needs for digital and mobile banking solutions. Through these initiatives the bank managed to reduce the operating loss by 31% to Kshs 298 million from Kshs 431 million the previous year.

Operational Efficiency

Technology remains at the heart of our transformation agenda. In 2024, we focused on enhancing our existing systems to improve efficiency and service delivery. We also introduced new digital banking solutions, including the enhanced Rafiki Salo App, aimed at providing seamless and convenient banking experiences for our customers.

Human Capital and Performance Management

Investing in our people remains a priority. The Bank has continued to implement initiatives focused on staff development, performance optimization, and culture transformation. These initiatives have strengthened our workforce's capabilities, ensuring they are well-equipped to deliver exceptional service to our customers.

Strategic Investor

I am happy to inform you that the bank made remarkable progress in the journey towards onboarding a strategic investor after rigorous engagements with several potential investors. In 2024 the bank successfully identified and agreed with a suitable investor who will not only inject capital into the business to support growth, investment in techonlogy and digital solutions but also bring onboard unique fintech capabilities to unlock the huge potential of the Rafiki Brand. The transaction is now awaiting the requisite regulatory approval and the Board will endevour to keep you informed once the transaction is approved.

THE WAY FORWARD IN 2025

As we look ahead to 2025, our strategic focus remains on driving innovation, expanding our market reach, and enhancing operational efficiency. Key priority areas include:

- **Deepening Digital Transformation:** We will invest further in digital banking solutions, automation, and modernized service channels to streamline customer interactions and improve service delivery.

- **Product Diversification:** Expanding our range of financial products, including SME lending, agribusiness financing, and micro-insurance, to meet evolving customer needs.

- **Sustainable Growth Strategies:** Strengthening risk management frameworks, optimizing cost structures, and reinforcing customer retention strategies to drive sustainable growth.

We remain confident that through continued collaboration, innovation, and prudent financial management, Rafiki Microfinance Bank will achieve even greater success in the years ahead.

APPRECIATION

In closing, I extend my heartfelt gratitude to my esteemed fellow Board members for their invaluable contributions, exemplary teamwork, and insightful guidance throughout the year. I am immensely grateful to our dedicated management team and employees for their unwavering commitment to realizing our strategic objectives. A special acknowledgment goes to our loyal customers and shareholders for their continued trust in the Board and management team, as well as their steadfast support of our vision. Together, we have achieved significant milestones, and I look forward to our continued success in the journey ahead.

Daniel Mavindu
Chairman
29TH APRIL **2025**

The Directors submit their report and the audited financial statements for the year ended 31 December 2024, which show the state of the group's affairs.

1 Incorporation

Rafiki Microfinance Bank Limited is domiciled and incorporated in Kenya under the Kenya Companies Act, 2015. The holding company is Chase Bank (K) Limited (IL), which is domiciled and incorporated in Kenya. The current board of directors is as shown on page 1. In accordance with the bank's Articles of Association, no director is due for retirement by rotation.

2 Principal activity

The principal activity of the company is to provide microfinance services in Kenya. Rafiki Assurance and Rafiki Homes are wholly owned subsidiaries of Rafiki Microfinance Bank Limited. The principal activity of Rafiki Assurance, is general insurance, while the principal activity of Rafiki Homes is real estate.

3 Results for the year

	2024 Kshs'000'	2023 Kshs'000'
Net loss before tax	(334,396)	(394,605)
Taxation	(646)	(1,076)
Net loss after tax transferred to reserves	(335,042)	(395,681)

4 Business review

Operating environment

• In 2024, the Kenyan shilling experienced significant fluctuations against global currencies. In the first quarter, it depreciated notably, losing 18.4% against the US dollar compared to the same period in 2023.However, starting in February 2024, the shilling began a robust recovery, appreciating by approximately 21% year-to-date by October, positioning it as one of the world's best-performing currencies during that period.

• Despite these gains, the shilling faced challenges in the latter part of the year. By November 2024, increased foreign exchange demand from manufacturers led to a slight weakening, with the shilling trading at 129.65/129.85 against the dollar. Overall, while the shilling demonstrated resilience and strength in 2024, it remained susceptible to both domestic economic conditions and global market dynamics.

Financial Performance

• The World Bank revised Kenya's GDP growth projection for 2024 to 4.7%, down from 5.6% in 2023. This slowdown was attributed to factors such as fiscal consolidation efforts, anti-government protests, and natural disasters like floods. Despite these challenges, the economy showed resilience, with sectors like agriculture, forestry, fishing, real estate, and financial services contributing positively. However, industries such as mining, quarrying, and construction experienced contractions during the second quarter.

• The government's fiscal policies, particularly the proposed tax hikes in the Kenya Finance Bill 2024, sparked significant public dissent. The bill aimed to increase taxes on various goods and services, leading to widespread protests and civil unrest. In response to the public outcry and ensuing violence, President William Ruto vetoed the bill, acknowledging the need for a more balanced approach to fiscal reforms

• During the year the Monetary Policy Committee (MPC) met 5 times, and in its latest meeting held in December, the MPC lowered the CBR rate by 75.0 bps to 11.25% to stimulate economic growth, which had slowed to 4.8% in the first half of 2024, down from 5.5% in the same period in 2023. In total, MPC lowered the CBR rates in 2024 by 1.75%, from 13.00% in February to 11.25% in December.

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4 Business review (Continued)

Financial Performance (continued)

• Net interest income declined by Kshs 109 million compared to the previous year as a result of a drop in the earning book and aggressive negotiations from our customers on interest rates.
• Non-funded income increased by Kshs 60 million compared to previous year mainly attributed by increase in commissions on guarantees, performance and bid bond income mainly driven by increased volumes of trade finance activities in 2024.
• Operating expenses reduced by 10% during the year to close at Kshs 746 million. Staff costs slightly reduced by Kshs 4% as the Bank undertook a hiring pause to manage the staff expenses. Other Operating expenses decreased by 14% attributed to decreased in office operations and travelling expenses. Depreciation expenses on assets declined by 40% majorly driven by fully depreciated assets in the year.
• Impairment provisions on loans and advances decreased by Kshs 29% mainly due to collections and a reduced loan book.

Outlook

• Improve the Asset book quality and growth through building relationships with the borrowers, undertaking aggressive campaign on recovery with incentives and developing new products for different segments.
• Increase revenue through introduction of digital loans with high interest rate yield and at the same time enhancing commissions from trade finance activities.
• Improve on human capital productivity through aligning organizational structure to business goals.
• Implement responsive business channels and digitization of products to remain competitive.
• Continue to restructure the loan book by resourcing the Debt Recovery function with the right skills and competencies.
• Continuous product review and repackaging of key products to drive deposits mobilization.
• Adequate funding to support business and its sustainability.

5 Dividends

The Directors do not recommend the payment of dividends in respect of the year ended 31 December 2024 (2023:

6 Financial statements

At the date of this report, the directors were not aware of any circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

7 Directors

The Directors who held office during the year and to the date are listed on page 1.

Going Concern

The bank's performance for the year 2024 improved compared to the previous year albeit at a loss position. The losses for the financial year 2024 reduced by 31% to Kshs 298,843,000 (2023: Kshs 430,911,000). The accumulated losses for the bank stand at Kshs 3,342,626,000. These losses have accumulated from April 2016 when the parent (Chase Bank) was placed under receivership.

The bank's performance for the financial year 2024 was affected by the difficult macroeconomic environment that was characterized by high interest rates, high cost of doing business and subdued consumer demand. The performance for the year was majorly affected by the following factors;
• Increased cost of funding resulting from stiff competition for deposits or lack of it due to economic hard times.
• Rise in non-performing loans due to reduced purchasing power, difficult operating environment and the issue of government pending bills to suppliers.
• Subdued demand for loans due to prevailing high interest rates and hard economic times.
• High cost of doing business arising from changes in legislation that hurts businesses e.g. Finance Act 2023, housing levy among others.
• High inflation leading to high prices of commodities.
Despite these challenges, the Bank remained resilient and was able to adapt to changes in the business environment and put strategies in place to turnaround its performance. The loss for the year improved by 33% from Kshs 433 Million to Kshs 290 Million. The improved performance was on account of partnerships to drive revenue; implementation of a robust debt recovery strategy the bank managed to recover Kshs 650 million with write-backs of Kshs 170 million. To mitigate the impact of reduced demands for loans, the bank grew the non-funded income by 45% to Kshs 193 million from Kshs 133 million through rollout of innovative trade finance products and improvement of turnaround time to meet customer expectations. To deal with the effects of high cost of doing business the bank rolled out a raft of cost management measures and internal realignments that saw the Bank realize reduction in staff costs and other operating expenses.

7 **Directors (continued)**

Going Concern (continued)

The Board has put in place a robust strategy to realize a more positive outcome and turnaround the business in 2025 through revamping and differentiation of product offering through digitization, aggressive debt recovery strategy and growth of non-funded income.

Strategic Investor

As part the strategy to strengthen and shore up its capital base to improve competitiveness and regulatory compliance, the bank successfully identified and agreed with a suitable strategic in the year 2024. The process of onboarding the strategic investor was approved by the Board of Directors and the shareholders. In line with the Central Bank of Kenya (CBK) microfinance regulations, an application for approval was submitted to CBK and the review and approval process is at an advanced stage. The Bank is optimistic that the application for onboarding a strategic investor will be approved by CBK before 30th June 2025.

The proposed strategic investor has committed to immediately inject a minimum Kshs 750 Million tier 1 capital. This capital infusion will enable the bank to meet regulatory minimum lending limits for its existing and planned portfolio increase, provide necessary liquidity, stabilize operations, and implement a robust restructuring plan aimed at achieving profitability.

To achieve profitability and ensure the business growth remains sustainable, some of the strategies the Investor has promised to bring on board is to drive organic growth by expanding the customer base, improving service delivery and enhancing product offerings, thereby increasing shareholders' returns. In addition, there will be a focus on underserved markets and leverage digital financial solutions to broaden outreach. These strategies will be achieved through implementing of a best-in-class financial services balanced scorecard as a key management tool for monitoring and achieving the desired performance in line with the Bank's vision. The tool will monitor the following;

a) Monthly, Quarterly, Annual business performance.
b) Liquidity management and foreign currency exposure limits.
c) Operational Efficiency (e.g. cost-to-income ratio).
d) Loan Portfolio Quality (e.g. Non-Performing Loans ratio).
e) Customer Satisfaction and Retention Matrix.
f) Branding and Market Share in Target Segments.
g) Outreach and Access Metrics (e.g. number of active borrowers, depositors).
h) Credit Risk Management.
i) Compliance AML, Regulatory reporting, SAR status.
j) Regulatory Adherence.
k) Employee Training and Development (training hours per employee).
l) Innovation and Technology Adoption (digital transaction volumes).

8 **Statement as to disclosure to the company auditor**

Each of the persons, who was a director at the time the report was approved confirms that:

(a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware;

(b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information to establish that the company's auditor is aware of that information.

9 **Auditor**

During the year, Forvis Mazars LLP, Certified Public Accountants (K) was appointed as the company's auditor and has expressed willingness to continue in office in accordance with Section 717 (1) of the Companies Act No 17 of 2015.

By Order of the Board

Anneedi

Secretary

29 April **2025**

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, 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 Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. It is also subject to various operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Group's policy is to monitor those business risks through the Group's strategic planning process.

Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Board has appointed a Board Risk Committee which has the responsibility to monitor the overall risk process within the Group. The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports.

The Risk Department within the Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the Risk Committee to ensure that procedures are compliant with the overall framework.

The Risk Department is responsible for monitoring compliance with risk principles, policies and limits across the Group. The department also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on a daily basis, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

Risk measurement and reporting systems

The Group's policy is that risk management processes throughout the Group are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

The Group'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 Group 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 Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group'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 the businesses is examined and 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 Risk Committee, and the head of each business division. The report includes aggregate credit exposure, liquidity 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 Group.

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 Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group'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 Group to manage risk concentrations at both the relationship and industry levels.

Rafiki Microfinance Bank Limited received its Deposit Taking License from the Central Bank of Kenya on 14 June 2011. The board of directors of the institution is responsible for ensuring that the institution complies with the Laws of Kenya and the guidelines issued by the Central Bank of Kenya. The Board comprises two shareholder representatives and one independent director.

Board Responsibilities

The board of directors of Rafiki Microfinance Bank Limited is responsible for ensuring that the Group complies with the laws of Kenya, the highest standards of corporate governance and universally accepted business ethics. The board has developed, adopted and benchmarked a framework of internationally recognized principles of good corporate governance, which it endeavours to adhere to in the pursuit and maintenance of the highest possible standards. There are 3 main board committees (members of whom are shown on page 1) as follows;

1) **The audit committee**
2) **The risk management committee**
3) **The credit committee**

The roles and responsibilities of audit committee

The audit committee assists the board in raising the standards of corporate governance and internal controls in the following areas:-

(a) Ensuring that financial and operational information is prepared in a timely and accurate manner;
(b) Improving the quality of financial record keeping and reporting;
(c) Strengthening the effectiveness of internal and external audit functions;
(d) Strengthening the internal control environment and risk management;
(e) Enhancing public confidence in the credibility and stability of the institution;
(f) Monitoring incidences of non-compliance with the Microfinance Act and regulations issued there under as well as any other relevant legislations and regulations, and advising the board on the best solutions; and,
(g) Monitoring the ethical conduct of the institution and developing the code of conduct and ethical standards and requirements, including effectiveness of procedures for handling and reporting complaints.

The roles and responsibilities of risk management committee

(a) The responsibilities of this committee are the review of financial information and the monitoring of the effectiveness of management information and internal control systems.
(b) The committee receives reports from both external and internal auditors, and also monitors implementation of audit recommendations, on behalf of the board.
(c) In addition, the committee deliberates on the significant findings arising from inspections by the Supervision Department of the Central Bank of Kenya.
(d) It also ensures that there is full compliance with the Microfinance Act and regulations issued there under as well as any other relevant legislations and regulations.

The roles and responsibilities of credit committee

(a) Reviews and oversees the overall lending policy, including monitoring and risk management tools.
(b) It ensures that there are effective procedures and adequate resources to identify and mitigate credit risk and monitors and evaluates all issues that may materially impact on the present and future quality of the loan portfolio and credit risk management.

Board performance evaluation

The board assesses its own performance and that of the management in the discharge of their duties and responsibilities and develops and submits to the Central Bank of Kenya an annual self-assessment board evaluation, not later than three months after the end of each financial year.

Daniel Mavindu
Chairperson

29TH APRIL **2025**

Single borrower limit

As a result of the losses in the current year, some loans that were previously compliant now exceed 5% of the core capital. Management is working with the customers to bring these accounts into compliance. Rafiki Microfinance Bank Limited has well-defined credit policies and procedures covering the maximum lending limits and approval levels, rate to be charged, repayment period, loan tracking and collateral. The institution did not grant a microfinance loan to any single end user or his associate that exceeded 2% of its core capital and the aggregate amount of microfinance loans was 71% of the institution's loan portfolio. Where there is a credit facility of more than 2% of the core capital, hereby referred to as a large exposure, such credit facility shall in aggregate not exceed 30% of the institution's total loan portfolio. In the current year the large exposure was 29%. Where a credit facility is non-performing, the outstanding balance will be net of provisions for purposes of determining the single borrower exposure limit. Rafiki Microfinance Bank Limited submits to the Central Bank of Kenya a return on single borrower limits on a quarterly basis.

Know your client (KYC) requirements

The board of directors ensures that management obtains and maintains proper identification of customers wishing to open accounts or make transactions or enter into an engagement with the institution whether directly or indirectly through proxy; and maintains adequate and accurate records for a minimum of seven years regarding its customers, sources of funds and transactions, as required by the Microfinance Act 2006.

Board meetings

The board meetings are pre-planned and are held at least quarterly or as necessary. All members are expected to attend the meetings and apologies are only accepted in very special circumstances. In the year under review, thirty board meetings were held by circulation. Attendances at these meetings were as follows:

Board meetings	Number of meetings attended (Maximum possible)		
	Board of Directors' meetings	Special Board Meetings	Board Committee Meetings
Daniel Mavindu	4(4)	6(6)	5(5)
Aggrey Jonathan K. Bett	4(4)	6(6)	19(19)
Stephen Mugwe Thuo	4(4)	6(6)	19(19)
Joseph Njuguna	4(4)	6(6)	9(9)

Conflicts of interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Group.

Business transactions with all parties, directors or their related parties are carried out at arm's length. In 2023, the directors submitted their annual declarations of interests which included:-

- An acknowledgement that should it come to the attention of a director that a matter concerning the group may result in a conflict of interest, they are obliged to declare the same and will exclude themselves from any discussion or decision over the matter in question.
- An acknowledgement that should the director be appointed to the Board or acquire a significant interest in a business competing with the group, the director will be obliged to offer their resignation.
- An acknowledgement that the foregoing also applies to interests of the immediate family members of the directors.

Business transactions with the directors or their related parties are disclosed in Note 19.

Rafiki Microfinance Bank Limited and Subsidiaries
Statement of director's responsibilities
For the year ended 31 December 2024

The Kenyan Companies Act No 17 of 2015 and the Microfinance Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. The two Acts of parliament require the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
ii) selecting and applying appropriate accounting policies; and
iii) making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 31 December 2024 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act No 17 of 2015.

The board of directors is aware of challenges facing the company's ability to remain a going concern. Before signing of the audit report, as explained under paragraph 7 on page 14, the directors have employed various strategies to enable the business to grow profitably in the future including admitting a strategic partner..

Approved by the board of directors on 29TH APRIL **2025** and signed on its behalf by:

Name :	**Name** : DANIEL MAWINDU
Date :	**Date** : 29TH APRIL 2025

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited

Opinion

We have audited the accompanying financial statements of Rafiki Microfinance Bank Limited and Subsidiaries (the group), set out on pages 23 to 78, which comprise the statement of financial position as at 31 December 2024, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2024 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 20 of the financial statements, which indicates that the Company incurred a net loss of Kshs 298M in respect to the year ended 31/12/2024 (2023: Kshs 431M). The accumulated loss as at 31/12/2024 is Ksh 3.34 Billion against share capital of Kes 3.75 Billion. In addition, the Company's loan book balance declined by approximately 570M (2023: Kshs 280M) and the customers deposit balance also declined by Kshs 44M (2023" Kshs 33M). These events or conditions have eroded the bank capital, and along with other matters as set forth in Note 20, they indicate that a material uncertainty exists that may cast significant doubt on the Company ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

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

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.

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited (continued)

Our audit approach

Summary

The judgements that have the most effect on the nature, extent and timing of our audit procedures - materiality, scoping and the key areas of audit focus - are summarized here and explained in detail below.

Materiality

We have used our professional judgment to determine the materiality for the financial statements as a whole. The materiality was based on total revenue as the Microfinance Bank is a financial institution whose going concern is based on interest income generated from loans advanced to customers. We have also taken into account misstatements which may arise due to fraud or error. The use of this measure has a direct relationship to profit and therefore mitigates the effects of volatility and aligns our audit with the measures that management use to focus on the underlying performance and position of the Group.

Scoping

The scope of our audit was influenced by our professional judgement on the Group risk assessment, the assessment of the risks are mainly posed by non-compliance with the Micro finance Act, 2006 and Microfinance regulations of 2008. We focused more on the higher risk areas, with less intensive coverage of medium and low risk areas with reliance to the effectiveness of systems and procedures.

Areas of focus

The areas of focus for our audit to which we allocated the greatest amount of our resources and effort were:

- Loan impairment provisions
- IT systems and controls on financial reporting
- Know your customers policy and Group procedures
- Interest income; and
- Deferred tax assets

i) Loan impairment provisions.

We focused on this area because the directors make judgements and estimates both in timing of recognition of provisions for impairment and other regulatory matters and the estimate of the quantum of any such amounts.

In the Microfinance Bank the material portion of impairment is individually calculated on a graduated scale as guided by the regulator, Central Bank of Kenya. The impairment is basically on a modelled basis over the aged analysis of loans, advances and overdrawn accounts. Performance of individual customer loans are continuously monitored through historical delinquency statistics. The assessment establishes the need for any additional impairment allowance and management awareness on the Group products.

Our response

In our testing of the impairment of loans we assessed the reasonability of management judgements and assumptions in computation of loan loss provisions.

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited (continued)

i) Loan impairment provisions (Continued)

We also engaged our internal specialist to assist with;

- Evaluate whether the impairment model used for loan loss provision for specific identified accounts complies with the requirements of IFRS 9.
- Analyzing the future projected cash flows to determine whether they are reasonable and supportable given the current macroeconomic climate.

  We found that the assumptions used by management were reasonable and comparable with historical and expected performance of the Group. We considered the disclosure of loan impairment loss to be appropriate and adequate. We further assessed as appropriate the classifications of the Group's loans and advances are in accordance with the requirements of CBK.

Where impairment was calculated on a modelled basis, we tested the basis and operation of those models and the data and assumptions used. Our work included the following:

- We compared the principal assumptions made with our own knowledge of other practices and actual experience;
- We tested the operation of the models used to calculate the impairment including, in some cases, rebuilding those models or building our own models independently and comparing the results;
- We considered the potential for impairment to be affected by events which were not captured by management's models and evaluated how management had responded to these by making further adjustments where appropriate; and
- We increased the extent of our sample of loans to staff and related parties whose interests was sensitive to operations of the Group. We found no material exceptions in these tests.

ii) IT systems and controls on financial reporting

We focused on this area because the Company's financial accounting and reporting systems are heavily dependent on IT systems and we purposed to establish the reliability of the IT system.

Our response

We involved our IT auditor who assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems and databases that are relevant to financial reporting. We examined the framework of governance over the Company's IT organization and the controls over program development and changes, access to programs, data and IT operations, including compensating controls where required. Where necessary we also carried out direct tests of certain aspects of the security of the Company's IT systems including access management and segregation of duties.

The combination of the tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the operation of the Company's IT systems for the purposes of our audit.

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited (continued)

iii) Know Your Customer (KYC) procedures for both loan and customer deposits

We focused on this area because KYC policy is an indispensable part of banking operation, whether it's about account opening or advancement of loans because of the inherent risk to the financial institutions, all the banks are required by the regulator to obtain information about their customers' identity and address, which are heavily dependent on the KYC policies and procedures operating effectively.

Our response

We assessed and tested the design and operating effectiveness of the KYC and in our exercise we considered the following aspects;

- Customer acceptance policy - This was to ensure that explicit guidelines are in place for acceptance of customers.

- Customer identification procedures - To identify the customer and verify his/her identity by using reliable, independent source documents, data or information.

- Regular monitoring of transactions - We held discussions with management to understand as well as observe the normal and reasonable activity of the customer in order to identify transactions that fall outside any regular pattern of activity.

The Board ensures that management obtains and maintains proper identification of customers wishing to open accounts or make transactions or enter into an engagement with the institution whether directly or indirectly through proxy; and maintains adequate and accurate records regarding its customers, sources of funds and transactions, as required by the Microfinance Act 2006.

iv) Interest income

We focused on the interest income to ensure amounts recognized in the year is dependent on the accurate computation of interest income by banking transaction processing system and the correct and complete input of the parameters of various contractual instruments into the transaction processing system.

Our response

We reviewed the disclosures relating to interest income ensuring they are included in notes to the financial statements and the Effective Interest Rate calculation are appropriately accounted for in accordance with IFRS 7.

- Through the use of analytical review procedures, we analysed the interest income to pinpoint the risk to the most appropriate assertion(s).

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited (continued)

iv) Interest income (Continued)

Our response (Continued)

- Through use of data analytics, we disaggregated interest income into classes of interest including interest released from suspense accounts. Controls around suspending of interest on non-performing loans and releases of interest held in suspense accounts were assessed. The basis of any releases of interest in suspense were assessed to determine whether they had been supported adequately.

- We engaged internal specialists (Risk Advisory - (IT) team to assist with testing the computational logics and related system controls of the underlying transaction processing system for interest income. We assessed the design, implementation and operating effectiveness of the controls regarding data input into transaction processing system and validation thereof that addressed the risk.

- Our risk advisory team spooled all non-standard journals in interest income general ledger lines for further testing and assessed their underlying business rationale as part of our testing around journal entries. Controls around posting of journal entries into revenue lines were assessed.

We found controls around input of various contractual instruments into the transaction processing system operating effectively. The computational logics of the transaction processing system were found correct and accurate. Also there was effective control around release of interest held in suspense.

v) Deferred tax assets

The recognition of deferred tax assets relies on the significant application of judgement by the directors in respect of assessing the probability that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The company has accumulated significant losses over the years and it would appear that not all losses may be recoverable in the near future. Recognising the deffered tax would significantly increase the assets and improve the net equity position of the company.

We reviewed the deffered provision made by management to determine whether consideration as to the uncertainity in recovery of total tax losses had been made.

Our response

Our audit procedures included the assessment of controls over the recognition and measurement of deferred tax assets and the assessment of assumptions used in projecting the Company's future taxable profits.

We compared key inputs used by the Company's to forecast future profits to externally available data such as economic forecasts and the Company's own historical data and performance and assessed the sensitivity of the outcomes to reasonably possible changes in assumptions. We also used our own tax specialists to critically assess the appropriateness of the future tax planning strategies.

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited (continued)

Responsibilities of management and directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Micro Finance Act, Regulations and IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition; and transactions are properly authorized and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

Auditor's Responsibilities for the audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional 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 management.

- Conclude on the appropriateness of management's 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- 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 financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of the audit;

ii) In our opinion proper books of accounts have been kept by the Company, so far as appears from our examination of those books; and

iii) The Company's statement of financial position and statement of comprehensive income are in agreement with the books of accounts.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA Alphonse Karungu Practicing Certificate No. 856

29 April 2025

For and on behalf of Forvis Mazars LLP
Certified Public Accountants
Nairobi

forvis mazars LLP
Certified Public Accountants
P. O. Box 61120 - 00200,
TEL: +254203861175/6/9
NAIROBI

Consolidated Statement of comprehensive income

	Note	2024 Kshs'000'	2023 Kshs'000'
Interest income	7	604,272	630,402
Interest expense	8	(382,129)	(299,039)
Net interest income		222,143	331,364
Net fees and commission income	9	193,756	133,154
Other operating income	10	(4,951)	(26,464)
Operating income		410,948	438,054
Expenses			
Impairment losses	18	50,385	71,256
Other operating expenses	11	227,237	263,398
Staff costs	12	392,922	407,520
Depreciation	13	72,848	87,948
Amortization of intangible assets	24	1,951	2,537
		745,343	832,659
Loss before tax		(334,396)	(394,605)
Income tax credit	14	(646)	(1,076)
Loss for the year		(335,042)	(395,681)
Fair Value changes in Available-for-Sale Financial Assets		37,084	(35,230)
Other Comprehensive income, net of taxes		37,084	(35,230)
Total comprehensive loss		(297,958)	(430,911)
Loss per share (basic and diluted)	33	(79)	(115)

Bank Statement of comprehensive income

	Note	2024 Kshs'000'	2023 Kshs'000'
Interest income	7	602,791	628,820
Interest expense	8	(382,802)	(300,332)
Net interest income		219,989	328,488
Net fees and commission income	9	180,535	113,347
Other operating income	10	(4,951)	(26,464)
Operating income		395,573	415,371
Expenses			
Impairment losses	18	50,385	71,256
Other operating expenses	11	223,115	261,927
Staff costs	12	376,136	390,934
Depreciation	13	72,349	87,809
Amortization of intangible assets	24	1,516	2,102
		723,500	814,028
Loss before tax		(327,927)	(398,657)
Income tax credit	14	-	-
Loss for the year		(327,927)	(398,657)
Fair Value changes in Available-for-Sale Financial Assets		37,084	(35,230)
Other Comprehensive income, net of taxes		37,084	(35,230)
Total comprehensive loss		(290,843)	(433,887)
Loss per share (basic and diluted)	33	(78)	(116)

Consolidated Statement of financial position as at 31 December 2024

	Note	2024 Kshs'000'	2023 Kshs'000'
Assets			
Cash and balances with Central bank	15	143,887	142,092
Deposits and balances with financial Institutions	15	573,228	657,465
Investment in Government Securities	16	514,914	354,872
Loans and advances to customers	17	2,623,106	3,193,164
Due from related companies	19	16,632	16,735
Other assets	21	153,985	158,518
Tax recoverable	14	104,152	91,914
Deferred tax asset	24	712	712
Property and equipment	22	77,558	86,983
Right-of-use-asset	23	133,414	125,611
Intangible assets	24	2,643	4,594
		4,344,232	4,832,660
Liabilities and equity			
Capital resources			
Share capital	26	3,750,000	3,750,000
Accumulated losses		(3,342,626)	(3,007,297)
Fair value reserve		(29,782)	(66,866)
Total Equity		377,592	675,837
Liabilities			
Deposits due financial institutions	19	293,603	309,570
Customers deposits	27	3,220,683	3,264,574
Borrowings	28	-	155,284
Due to related companies	19	174,459	141,647
Other liabilities	29	109,880	130,069
Lease liabilities	30	168,015	155,679
		3,966,640	4,156,823
		4,344,232	4,832,660

The financial statements on pages 22 to 78 were approved for issue by the board of directors on 29TH APRIL **2025** and were signed on its behalf by:

Name : JOSEPH NJUGUNA
Date : 29 APRIL 2025

Name : DANIEL MAUINDY
Date : 29TH APRIL 2025

Bank Statement of financial position as at 31 December 2024

	Note	2024 Kshs'000'	2023 Kshs'000'
Assets			
Cash and balances with Central bank	15	143,887	142,092
Deposits and balances with financial Institutions	15	573,228	657,465
Investment in Government Securities	16	504,582	344,314
Loans and advances to customers	17	2,623,106	3,193,164
Due from related companies	19	27,328	25,110
Investment in associate companies	16	15,000	15,000
Other assets	21	137,224	143,300
Tax recoverable	14	104,799	92,776
Property and equipment	22	76,457	85,379
Right-of-use-asset	23	133,414	125,611
Intangible assets	24	1,701	3,216
		4,340,725	4,827,427
Liabilities and equity			
Capital resources			
Share capital	26	3,750,000	3,750,000
Accumulated losses		(3,344,778)	(3,016,563)
Fair value reserve		(29,782)	(66,866)
Total Equity		375,440	666,571
Liabilities			
Deposits due financial institutions	19	293,603	309,570
Customers deposits	27	3,235,345	3,282,467
Borrowings	28	-	155,284
Due to related companies	19	174,459	141,644
Other liabilities	29	93,864	116,213
Lease liabilities	30	168,015	155,679
		3,965,285	4,160,857
		4,340,725	4,827,427

The financial statements on pages 22 to 78 were approved for issue by the board of directors on

29TH APRIL **2025** and were signed on its behalf by:

Name : JOSEPH NJUGUNA
Date : 29 APRIL 2025

Name : DANIEL MAVINDU
Date : 29TH APRIL 2025

solidated Statement of changes in equity

	Share capital Kshs'000	Accumulated losses Kshs'000	Fair Value reserves Kshs'000	Statutory reserve Kshs'000	Total Kshs'000
r ended 31 December 2024					
ıt 1 January 2024	3,750,000	(3,007,584)	(66,866)	-	675,550
ction of new capital			-	-	-
s for the year	-	(335,042)	-	-	(335,042)
ıer comprehensive loss for the year	-	-	37,084	-	37,084
₃1 December 2024	3,750,000	(3,342,626)	(29,782)	-	377,592
ar ended 31 December 2023					
at 1 January 2023	3,000,000	(2,662,316)	(31,636)	50,700	356,748
ɘction of new capital	750,000	-	-	-	750,000
ss for the year	-	(395,681)	-	-	(395,681)
her comprehensive loss for the year	-	-	(35,230)		(35,230)
ansfer to statutory reserve	-	50,700	-	(50,700)	-
31 December 2023	3,750,000	(3,007,297)	(66,866)	-	675,837

afiki Microfinance Bank Limited and Subsidiaries
onsolidated financial statements
or the year ended 31 December 2024

ank Statement of changes in equity

	Share capital Kshs'000	Accumulated losses Kshs'000	Fair Value reserves Kshs'000	Statutory reserve Kshs'000	Total Kshs'000
ear ended 31 December 2024					
at 1 January 2024	3,750,000	(3,016,851)	(66,866)	-	666,283
ss for the year	-	(327,927)	-	-	(327,927)
her comprehensive loss for the year	-	-	37,084	-	37,084
31 December 2024	3,750,000	(3,344,778)	(29,782)	-	375,440
ar ended 31 December 2023					
at 1 January 2023	3,000,000	(2,668,606)	(31,636)	50,700	350,458
ection of new capital	750,000			-	750,000
ss for the year	-	(398,657)	-	-	(398,657)
ier comprehensive loss for the year	-	-	(35,230)		(35,230)
insfer to statutory reserve	-	50,700	-	(50,700)	-
31 December 2023	3,750,000	(3,016,563)	(66,866)	-	666,571

Group Statement of cash flows	**Note**	**2024 Kshs'000'**	**2023 Kshs'000'**
Net cash used in operations	30	260,153	(9,202)
Taxation paid	14	(13,158)	(13,264)
Net cash flows used in operating activities		246,995	(22,467)
Cash flows from investing activities			
Investment in Government securities	16	(122,957)	1,189
Proceeds from sale of property and equipment	21	862	150
Purchase of intangible assets	23	-	(1,105)
Purchase of property and equipment	21	(8,920)	(8,632)
Net cash used in investing activities		(131,015)	(8,398)
Cash flows from financing activities			
Loan repayment		(168,697)	(56,928)
Interest paid		(25,385)	(34,792)
Net cash generated from/(used in) financing activities		(194,082)	(91,720)
Decrease in cash and cash equivalents		(78,102)	(122,585)
Effects of foreign exchange differences		(6,135)	(26,820)
At start of year		657,465	806,869
At end of year	15	573,228	657,465

Bank Statement of cash flows

	Note	2024 Kshs'000'	2023 Kshs'000'
Net cash used in operations	31	259,243	(10,248)
Taxation paid	14	(12,023)	(12,872)
Net cash flows used in operating activities		247,220	(23,120)
Cash flows from investing activities			
Investment in Government securities	16	(123,183)	163
Proceeds from sale of property and equipment	21	862	150
Purchase of intangible assets	24	-	(1,105)
Purchase of property and equipment	22	(8,921)	(6,955)
Net cash used in investing activities		(131,241)	(7,747)
Cash flows from financing activities			
Loan repayment		(168,697)	(56,925)
Interest paid		(25,385)	(34,792)
Net cash generated from/(used in) financing activities		(194,082)	(91,717)
Decrease in cash and cash equivalents		(78,103)	(122,584)
Effects of foreign exchange differences		(6,135)	(26,820)
At start of year		657,465	806,869
At end of year	15	573,227	657,465

1 Corporate information

The Bank provides Micro, Retail and SME Banking services in Kenya. It is incorporated in under the Kenyan Companies Act, 2015, as a Public Limited Liability Company and is domiciled in Kenya.

2 Basis of preparation and other significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the effect of the new and amended IFRS and IFRIC interpretations in note 3.1 below.

2 Basis of preparation

a) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis of accounting.

b) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the IASB, and the requirements of the Kenyan Companies Act, 2015.
For the purpose of reporting under the Kenyan Companies Act, 2015, the balance sheet in the financial statements is represented by the statement of financial position and the profit and loss account is represented by the statement of profit or loss and other comprehensive income.

c) Presentation of financial statements

The Group presents the consolidated statement of financial position in order of liquidity. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of profit or loss and other comprehensive income unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

d) Functional and presentation currency

The consolidated financial statements are presented in Kenya Shillings, which is the Group's functional currency, and all amounts have been rounded off to the nearest thousand (KShs'000), unless otherwise stated.

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the bank and its subsidiaries as at 31 December 2024. Control is achieved when the Group 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. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

2 Basis of preparation and other significant accounting policies (continued)

e) Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The financial statements of the subsidiaries have been excluded from the consolidation since their inclusion is not material for the purpose of providing a true and fair view of the state of financial affairs of the group as at 31 December 2024.

3 Summary of significant accounting policies and disclosures

New and revised standards

i) *Adoption of new and revised standards*

One new Standard and three Amendments to standards became effective for the first time in the financial year beginning 1st January 2023 and have been adopted by the Company.

The following new and revised standards have become effective for the first time in the financial year beginning 1 January 2024:

Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)

The amendments clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)

The amendment requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss.

Amendments to IAS 7 and IFRS 7 titled Supplier Finance Arrangements (issued in May 2023)

The amendments require an entity to provide additional disclosures about its supplier finance arrangements.

None of the amendments have had a material impact on the Company's financial statements.

ii) New and revised standards that have been issued but are not yet effective

The Company has not applied the following new and revised standards and interpretations that have been
published but are not yet effective for the year beginning 1st January 2024. None of the changes is expected to have any material impact on the Company's financial statements except IFRS 18, which will

Amendments to IAS 21 titled Lack of Exchangeability (issued in August 2023)

The amendments, applicable to annual periods beginning on or after 1st January 2025, require an entity to apply a consistent approach to assessing whether a currency is exchangeable into another currency and, when it is not, to determining the exchange rate to use and the disclosures to

IFRS 18 titled Presentation and Disclosure in Financial Statements (issued in April 2024)
The new standard, applicable to annual periods beginning on or after 1st January 2027, replaces IAS 1 and sets out revised requirements for the presentation and disclosure of information in general purpose financial statements.

Amendments to IFRS 9 and IFRS 7 titled Amendments to the Classification and Meassurement of Financial Instruments (issued in May 2024)
The amendments, applicable to annual periods beginning on or after 1 January 2026, address diversity in accounting practice by making the requirements more understandable and consistent.

Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)
The amendments, applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

3 Summary of significant accounting policies and disclosures (continued)

3 New and revised standards (continued)

The directors do not expect that adoption of these standards and interpretations will have a material impact on the financial statements in future periods. The company plans to apply the changes above from their effective dates.

3.2 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya shillings, which is the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

3.3 Financial instruments

3.3.1 Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets – assets that are credit-impaired at initial recognition, the Group calculates the credit- adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit

3 Summary of significant accounting policies and disclosures (continued)

3.3 Financial instruments

3.3.1 Financial assets and liabilities (continued)

Measurement methods (continued)

Amortised cost and effective interest rate (continued)

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

Interest income

Interest income and interest expense on interest bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount, except for:

(a) Purchased or originated credit impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and

(b) Financial assets that are not "POCI" but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e.net

Initial recognition and measurement

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

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

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

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

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

Financial assets

(i) Classification and subsequent measurement

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

- *Fair value through profit or loss (FVPL)*
- *Fair value through other comprehensive income (FVOCI)*
- *Amortised cost*

3.3 Financial instruments (Continued)

3.3.1 Financial assets and liabilities (Continued)

Financial assets (continued)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and
(ii) the cash flow characteristics of the asset

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

- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest and similar income" using the effective interest rate method.

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

Fair value through the profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented within "Net trading income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "Net investment income". Interest income from these financial assets is included in "interest income" using the effective interest rate

Business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a Group of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the Group as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

3.3 Financial instruments (Continued)

3.3.1 Financial assets and liabilities (Continued)

Financial assets (continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represents solely payments of principal and interest (the "SPPI test"). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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

Equity Instruments

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

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversals of impairment losses) are not reported separately from other changes in fair values. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Groups's right to receive payment is established.

Gains and losses on equity investments at FVPL are included in the "Net trading income" line in the statement of profit or loss.

(ii) Impairment

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

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

Equity Instruments

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

3.3.1 Financial assets and liabilities (Continued)

Financial assets (Continued)

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change is interest rate
- Change in the currency of the loan
- Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

(iii) Modification of loans

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

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

(iv) Derecognition other than on a modification

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

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from assets without material

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowings transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

3.3.1 Financial assets and liabilities (Continued)

Financial liabilities

(i) Classification and subsequent measurement

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange of modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the

Offsetting financial assets and financial liabilities

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

3.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with Groups and other short-term highly liquid investments with original maturities of three months or less. Funds restricted for a period of more than three months on origination and cash reserve deposits with the Central Bank of Kenya are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

3.5 Property and equipment

All equipment used by the Group is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of assets is calculated using the reducing balance method to reduce their cost to their residual values over their estimated useful lives, as follows:

	Rate
Computers and equipment	33.30%
Motor vehicles	25.00%
Office equipment	12.50%
Furniture and fittings	12.50%
Automated teller machines	12.50%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other operating expenses' in profit or loss.

3.6 Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Amortisation is calculated on a straight line basis over the estimated useful lives at an annual rate of 25%.

3.7 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting

3.8 Employee benefits

The Group contributes to the statutory National Social Security Fund. This is a defined contribution scheme to which the company's obligation is limited to a specified contribution per employee per month. Currently, the company's contribution is limited to a maximum of Kshs 1,080 per employee per month and is charged to the profit or loss in the year to which it relates.

3.9 Provisions for liabilities

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.10 Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared.

3.11 Income tax

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

(a) Current income tax

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

3.11 Income tax (continued)

(b) Deferred income tax

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

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

3.12 Leases

Leases under which the Company is the lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the Company recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the Company is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate is used.

For leases that contain non-lease components, the Company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

All other right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the Company at the end of the lease term, the estimated useful life would not exceed the lease term.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the profit and loss account. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost (excess depreciation) is transferred from the revaluation surplus reserve to retained earnings.

3.12 Leases (continued)

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

The above accounting policy has been applied from 1st January 2020.

Leases under which the Company is the lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit and loss account on a straight-line basis over the lease term. The Company has not entered into any finance leases.

3.13 Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the

4 Critical accounting estimates in applying the entity accounting policies

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The directors also need to exercise judgment in applying the Group's accounting policies.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

(a) Measurement of the expected credit loss allowance

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

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

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;

4 Critical accounting estimates in applying the entity accounting policies (Continued)

(a) Measurement of the expected credit loss allowance

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing Groups of similar financial assets for the purposes of measuring ECL;
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities; and
- Determining the appropriate business models and assessing the "solely payments of principal and interest (SPPI)" requirements for financial assets.

(b) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

5 Financial risk management

The group has exposure to the following risks from its use of financial instruments:this are credit risk, liquidity risk and market risk.

a) Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the bank's loans and advances to customers and other banks and investment securities.

For risk management reporting purposes, the bank considers and consolidates all elements of credit risk exposure. The Risk Management Committee manages and oversees the overall lending policy of the bank. Measures to minimize credit risk include the following among others;

i) Establishing the authorization structure for the approval and renewal of credit facilities.

ii) Establishment of IT controls to avoid unauthorized lending and to generate exception reports on new advance accounts.

iii) Placing limits on the amounts of risk accepted in relation to one borrowers, or group of borrower, and to industry segments.

iv) Regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations.

v) Regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations.

vi) Obtaining collateral and corporate/personal guarantees.

vii) Reviewing compliance with agreed exposure limits. Regular reports are provided to the Risk Committee on the credit quality of portfolios and appropriate corrective action is taken.

(i) Management of credit risk

Concentrations of assets and off balance sheet items:

Details of significant concentrations of the company's financial assets by industry groups are as detailed below:

5 Financial risk management (Continued)

a) Credit risk (Continued)

Group and Bank
loans and advances to customers

	2024 Kshs'000	%	2023 Kshs'000	%
Agriculture	17,100	0.65%	29,291	0.92%
Manufacturing	140,984	5.37%	145,331	4.55%
Building and construction	922,729	35.18%	1,321,828	41.40%
Electricity and water	410	0.02%	2,685	0.08%
Trade	809,938	30.88%	793,146	24.84%
Tourism, restaurant and hotels	52,780	2.01%	59,176	1.85%
Transport & communication business	97,241	3.71%	132,162	4.14%
Real estate & home improvement	323,073	12.32%	412,514	12.92%
Financial services	6,096	0.23%	29,500	0.92%
Personal/household consumer loans	252,737	9.64%	267,496	8.38%
Mining and quarrying	19	0.00%	34	0.00%
	2,623,106	100%	3,193,163	100%

(ii) Maximum exposure to credit risk before collateral held

Group

On balance sheet tems:	2024 Kshs'000	%	2023 Kshs'000	%
Cash reserve ratio with Central Bank of Kenya	143,887	4.12%	142,092	3.34%
Cash and balances with banks	130,991	3.75%	130,621	3.07%
Short term deposits with banks	444,136	12.73%	528,589	12.42%
Loans to customers	2,623,106	75.18%	3,193,163	75.03%
Other assets	135,623	3.89%	250,460	5.89%
Due from related companies	16,632	0.48%	16,735	0.39%
	3,494,375	100%	4,261,660	100%

Off balance sheet items

	2024 Kshs'000	2023 Kshs'000
Letter of guarantee and performance bonds	8,769,079	5,428,426

Bank

On balance sheet tems:	2024 Kshs'000	%	2023 Kshs'000	%
Cash reserve ratio with Central Bank of Kenya	143,887	4.12%	142,092	3.34%
Cash and balances with banks	130,991	3.75%	130,621	3.07%
Short term deposits with banks	444,136	12.73%	528,589	12.42%
Loans to customers	2,623,106	75.18%	3,193,163	75.03%
Other assets	119,613	3.43%	236,220	5.55%
Due from related companies	27,328	0.78%	25,110	0.59%
	3,489,061	100%	4,255,795	100%

Off balance sheet items

	2024 Kshs'000	2023 Kshs'000
Letter of guarantee and performance bonds	8,769,079	5,428,426

5 Financial risk management (Continued)

a) Credit risk (Continued)

(iii) Classification of loans and advances to customers

Group and Bank	2024	2023
	Kshs'000'	Kshs'000'
Neither past due nor impaired	1,046,533	1,422,509
Past due but not impaired	201,217	312,344
Impaired	2,360,686	2,362,521
Gross	3,608,435	4,097,373
Less: allowances for impairment	(985,329)	(904,211)
Net	2,623,106	3,193,163

Loans and receivables that are neither past due nor impaired

The company classifies loans and receivables under this category for those exposures that are upto date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with guidelines issued by banking regulators and a provision of 1% is provided in the financial statements.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the company 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 company.

A collective allowance for impairment of 5% is made to cover losses which have been incurred but have not yet been identified. These exposures are categorised as watch per the microfinance regulations.

Impaired loans

Impaired loans are loans for which the company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s). These accounts under guidelines issued by company's regulators are termed as non-performing loans. The company establishes a specific allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. These exposures are categorised as classes 3 – 5 per the microfinance regulations.

Allowances for impairment

The company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The company writes off a loan/security balance (and any related allowances for impairment losses) when it determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/ issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets based on age:

Group and Bank
Loans to customers

As at 31 December 2024	Gross Kshs'000'	Net Kshs'000'
Neither past due nor impaired	1,046,533	1,012,073
Past due but not impaired	201,217	185,977
Impaired	2,360,686	1,425,057
	3,608,435	2,623,106

5 Financial risk management (Continued)

a) Credit risk (Continued)

Group and Bank
Loans to customers

As at 31 December 2023	Gross Kshs'000'	Net Kshs'000'
Neither past due nor impaired	1,422,509	1,392,851
Past due but not impaired	312,344	278,022
Impaired	2,362,521	1,522,290
	4,097,373	3,193,163

Expected Credit Loss measurement

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

A financial instrument that is not credit impaired at initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Bank.

If a significant increase in credit risk ("SICR" since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit impaired.

If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3)

The key judgements and assumptions adopted by the Bank in addressing the requirements of the Standard are as follows:

5.1.2.1 Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Qualitative criteria

For retail portfolio, if the borrower meets one or more of the following criteria:
- In short-term forbearance
- Direct debit cancellation
- Extension to the terms granted
- Previous arrears within the last 12 months

For wholesale and treasury portfolios, if the borrower is on the watch list and/or the instrument meets one or more of the following criteria:
- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cash flows/liquidity problems such as delay in servicing of trade creditors/loans

5 Financial risk management (Continued)

a) Credit risk (Continued)

Group and Bank

Loans to customers	**Gross Kshs'000'**	**Net Kshs'000'**
As at 31 December 2023		
Neither past due nor impaired	1,422,509	1,392,851
Past due but not impaired	312,344	278,022
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	4,097,373	3,193,163

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For wholesale and treasury portfolios, if the borrower is on the watch list and/or the instrument meets one or more of the following criteria:
- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cash flows/liquidity problems such as delay in servicing of trade creditors/loans

5 Financial risk management (Continued)

5.1.2.1 Significant increase in credit risk (SICR) (Continued)

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all retail financial instruments held by the Bank. In relation to wholesale and treasury financial instruments, where a watch list is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent credit team.

Backstop

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

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

5.1.2.2 Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent or becoming probable that the borrower will enter bankruptcy
- The borrower is in breach of financial covenants
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by The lender relating to The borrower's financial difficulty
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses

The above criteria have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

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

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

5 Financial risk management (Continued)

5.1.2.3 Measuring expected credit loss – inputs, assumptions and estimation techniques

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

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

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

For amortising products or bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayments/refinance assumptions are also incorporated.
For revolving products, the exposure at default is predicted by taking the current drawn-down balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoverable amount post default. These vary by product type:

For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and prices.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on q quarterly basis.

5.1.2.4 Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

Forecasts of the base economic scenario and the possible scenarios along with scenario weightings are prepared by an expert economic team. The impact of these economic variables on the PD, EAD and LGD is determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible outcomes.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have been considered, but are not deemed to have a material impact on therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

5 Financial risk management (Continued)

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

Retail portfolio
(i) *Unemployment rate*, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments; and
(ii) *House price index,* given the significant impact it has on mortgage collateral valuations

Wholesale portfolio
(i) *GDP,* given the significant impact on businesses' performance and collateral valuations
(ii) *Interest rate,* given its impact on businesses' likelihood of default

3.1.2.5 Grouping of instruments for losses measured on a collective basis

For expected credit losses provisions modelled on a collective basis, a Banking of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a Bank are homogenous. In performing this grouping, there must be sufficient information for the Bank to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine Bankings are as follows:

Retail – Grouping for collective measurement
- Loan to value ratio band
- Credit rating band
- Product type (e.g. Residential/buy to let mortgage, overdraft, credit card)
- Repayment type
- Utilisation band

Wholesale – groupings for collective measurement
- Industry – external data sourced from study
- Collateral type
- Credit rating band
- Geographical region of risk exposure

The appropriateness of groupings is monitored and reviewed on a periodic basis.

5.1.3.3 Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

o Mortgages over residential properties.
o Charges over business assets such as premises, inventory and accounts receivable.
o Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the 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. The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the period.

The Bank closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

5 Financial risk management (Continued)

5.1.3.4 Lending limits

The Bank maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

5.1.3.5 Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

5.1.3.6 Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit 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 shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations 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 (often referred to as financial covenants).

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

5.1.4 Impairment and provisioning policies

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

Transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent "step up" or "step down" between 12-month and lifetime ECL;
- Additional allowance for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

5 Financial risk management (Continued)

5.1.5 Write-off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery methods foreclosing on collateral and the value of the collateral is such that there is no reasonable expectations of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written-off during the year was nil (2022:Kshs 861Mn). The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of recovering in full.

5.1.6 Modifications of financial assets

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended repayment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

b) Liquidity risk

The company is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with customer requirements. Liquidity risk is addressed through the following measures:

(i) Management of liquidity risk

The company'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 company's reputation. The Risk Committee, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties meeting financial liabilities as they fall due is encountered. A portfolio of short-term liquid assets largely made up of short-term liquid investment securities and bank facilities ensure that sufficient liquidity is maintained within the company as a whole.

(ii) Source of funding

The company has an aggressive strategy aimed at increasing the customer base and maintains a diversified and stable base of customers.

The company also borrows from the finacial instituitions for short term liquidity requirements.

(iii) Exposure to liquidity risk

The key measure used by the company 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 in 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 3 months. The bank regulators require that the bank maintains a liquidity ratio of 20% effect. The company complied with the liquidity requirements during the year. The average liquidity ratio for the year was 24.36%.

The table below represents the cash flows payable by the company under non- derivative financial liabilities by remaining contractual maturities at the end of the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The company manages the inherent liquidity risk based on expected undiscounted cash inflows

5 Financial risk management (Continued)

b) Liquidity risk (Continued)

Group

	Less than one month Kshs. '000'	Between 1-3 months Kshs. '000'	3 months less than year Kshs. '000'	1 year less than 5 year Kshs. '000'	Over 5 years Kshs. '000'	Total Kshs. '000'
Financial Assets						
Cash and bank balances	241,132	-	-	-	-	241,132
Deposits with banking institutions	369,785	100,000	-	-	-	469,785
Investment in Government Securities	-	332	-	-	504,582	504,914
Loans and advances to customers	1,032,539	51,423	230,642	1,308,502	-	2,623,106
Due from related company	16,632	-	-	-	-	16,632
Other Assets	96,766	-	-	38,857	-	135,623
Total assets (expected) (maturity dates)	1,756,854	151,755	230,642	1,347,359	504,582	3,991,192
Financial Liabilities						
Deposits and balances due to banking institutions	90,535	-	200,000	-	-	290,535
Borrowings	-	-	-	-	-	-
Customer deposits	2,342,259	382,171	362,753	-	-	3,087,183
Due to related company	-	-	-	-	-	-
Other Liabilities	109,886	-	-	-	-	109,886
Total liabilities (Contractual) (maturity dates)	2,542,680	382,171	562,753	-	-	3,487,604
NET LIQUIDITY GAP						
31st December 2024	(785,826)	(230,416)	(332,111)	1,347,359	504,582	503,588
31st December 2023	(946,697)	(501,695)	214,041	1,230,099	738,853	734,602
2024						
Letters of guarantee and performance bonds	-	4,322,561	4,446,518	-	-	8,769,079
2023						
Letters of guarantee and performance bonds	193,685	2,159,838	2,807,772	267,131	-	5,428,426

5 Financial risk management (Continued)

b) Liquidity risk (Continued)

Bank

	Less than one month Kshs. '000'	Between 1-3 months Kshs. '000'	3 months less than year Kshs. '000'	1 year less than 5 year Kshs. '000'	Over 5 years Kshs. '000'	Total Kshs. '000'
Financial Assets						
Cash and bank balances	241,132	-	-	-	-	241,132
Deposits with banking institutions	369,785	100,000	-	-	-	469,785
Investment in Government Securities	-	-	-	-	504,582	504,582
Loans and advances to customers	1,032,539	51,423	230,642	1,308,502	-	2,623,106
Due from related company	27,328	-				27,328
Other Assets	80,756		-	38,857	-	119,613
Total assets (expected) (maturity dates)	1,751,540	151,423	230,642	1,347,359	504,582	3,985,546
Financial Liabilities						
Deposits and balances due to banking institutions	90,535	-	200,000	-	-	290,535
Borrowings	-	-	-		-	-
Customer deposits	2,348,109	390,984	362,753	-	-	3,101,846
Due to related company	174,459	-	-	-	-	174,459
Other Liabilities	93,864	-	-	-	-	93,864
Total liabilities (Contractual) (maturity dates)	2,706,967	390,984	562,753	-	-	3,660,704
NET LIQUIDITY GAP						
31st December 2024	(955,427)	(239,561)	(332,111)	1,347,359	504,582	324,843
31st December 2023	(1,087,984)	(512,515)	214,041	1,230,099	738,853	582,495
2024						
Letters of guarantee and performance bonds	-	4,322,561	4,446,518	-	-	8,769,079
2023						
Letters of guarantee and performance bonds	193,685	2,159,838	2,807,772	267,131	-	5,428,426

5 Financial risk management (Continued)

c) Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

Overall authority for market risk is vested in the Risk Management Committee which is responsible for the development of detailed risk management policies. The policies are subject to review and approval by the board.

Exposure to interest rate risk

The company is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on financial position and cash flows. The risk committee closely monitors the interest rates trends to minimize the potential adverse impact of interest rate changes.

The table overleaf summarizes the exposure of interest rate risk at the balance sheet date. The company maintains an appropriate mix of fixed and floating rates deposit base. Interest rates on advances to customers and other risk assets are either pegged to the company's lending rate or the company's rates are adjusted from time to time to reflect the cost of deposits. Interest rates on cash collateral held are determined by the company with the company retaining the discretion to adjust the rates in line with changes in market trends. The interest rates, therefore, may fluctuate depending on the movement in the market interest rates. The company also invests in fixed interest rate instruments issued by the Government of Kenya through the Central Bank of Kenya.

The matching and controlled mismatching of the maturities and interest rate of assets and liabilities is fundamental to the management of the company. It is unusual for a company's assets and liabilities to be completely matched due to the nature of business terms and types.

Included in the table overleaf are financial assets and liabilities at carrying amounts categorized by the earlier of contractual repricing or maturity dates.

5 Financial risk management (Continued)

c) Market risk (continued)

Group

	Maturing Less than one month Kshs. '000'	Between 1-3 months Kshs. '000'	4 Months to 1 year Kshs. '000'	1 year less than 5 year Kshs. '000'	Non interest bearing Kshs. '000'	Total Kshs. '000'
Financial Assets						
Cash and bank balances	-	-	-	-	241,132	241,132
Deposits with banking institutions	369,785	100,000	-	-	-	469,785
Investment in Government Securities	-	332	-	504,582	-	504,914
Loans and advances to customers	1,032,539	51,423	230,642	1,308,502	-	2,623,106
Other assets	-	-	-	-	96,766	96,766
Due from related company	-	-	-	-	16,632	16,632
Total financial assets	1,402,324	151,755	230,642	1,813,084	354,530	3,952,335
Financial Liabilities						
Deposits and balances due to banking institutions	90,535	-	200,000	-	-	290,535
Customer deposits	1,898,652	382,171	362,753	-	443,607	3,087,183
Borrowings	-	-	-	-	-	-
Due to related company	-	-	-	-	-	-
Other liabilities	-	-	-	-	109,886	109,886
Total financial liabilities	1,989,187	382,171	562,753	-	553,493	3,487,604
Interest rate - Sensitivity Gap						
2024	(586,863)	(230,416)	(332,111)	1,813,084	(198,963)	464,731
2023	(711,472)	(501,695)	183,116	1,861,604	(235,225)	596,328

5 Financial risk management (Continued)

c) Market risk (continued)

Bank

	Maturing Less than one month Kshs. '000'	Between 1-3 months Kshs. '000'	4 Months to 1 year Kshs. '000'	1 year less than 5 year Kshs. '000'	Non interest bearing Kshs. '000'	Total Kshs. '000'
Financial Assets						
Cash and bank balances	-	-	-	-	241,132	241,132
Deposits with banking institutions	369,785	100,000	-	-	-	469,785
Investment in Government Securities	-	-	-	504,582	-	504,582
Loans and advances to customers	1,032,539	51,423	230,642	1,308,502	-	2,623,106
Other assets	-	-	-	-	80,756	80,756
Due from related company	-	-	-	-	27,328	27,328
Total financial assets	1,402,324	151,423	230,642	1,813,084	349,216	3,946,689
Financial Liabilities						
Deposits and balances due to banking institutions	90,535	-	200,000	-	-	290,535
Customer deposits	1,904,502	390,984	362,753	-	443,607	3,101,846
Borrowings	-	-	-	-	-	-
Due to related company	-	-	-	-	174,459	174,459
Other liabilities	-	-	-	-	93,864	93,864
Total financial liabilities	1,995,037	390,984	562,753	-	711,929	3,660,704
Interest rate - Sensitivity Gap						
31st December 2024	(592,713)	(239,561)	(332,111)	1,813,084	(362,713)	285,986
31st December 2023	(719,103)	(512,515)	183,116	1,861,604	(368,881)	444,221

5 Financial risk management (continued)

c) Market risk (continued)

Interest rate risk stress test

	Group		Bank	
	2024	2023	2024	2023
	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
300 basis points increase in interest rates	19,911	24,393	19,461	24,393
300 basis points decrease in interest rates	(19,911)	(24,393)	(19,461)	(24,393)

d) Currency risk

The company operates wholly within Kenya and its assets and liabilities are reported in the local currency. As at the end of the trading period it had no currency risk pertaining to its operations.

6 Capital Risk Management

The Central Bank of Kenya sets and monitors capital requirements for Microfinance Bank Institutions as a whole.

The Microfinance Bank regulatory capital is analysed into two tiers:

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

Various limits are applied to elements of the capital base. Qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 % of tier 1 capital.

There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of Microfinance Bank and

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-statement of financial position exposures.

The institution's aim is to build a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Microfinance Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and

In implementing current capital requirements, the Central Bank of Kenya requires each Microfinance Bank to maintain;

- In implementing current capital requirements, the Central Bank of Kenya requires each Microfinance Bank to maintain;

  A minimum level of regulatory capital of Shs 60 million.
- A ratio of core capital to the risk–weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 8%.
- Core capital of not less than 10% of total deposit liabilities.
- Supplementary capital of not less than 12% of risk weighted assets plus risk-weighted off-statement of financial position items.

6 Capital Risk Management (continued)

In implementing current capital requirements, the Central Bank of Kenya requires each Microfinance Bank to maintain;

A minimum level of regulatory capital of Shs 60 million.

A ratio of core capital to the risk–weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 8%.

Core capital of not less than 10% of total deposit liabilities.

Supplementary capital of not less than 12% of risk weighted assets plus risk-weighted off-statement of financial position items.

	Group and Bank	
Tier 1 capital	**2024**	**2023**
	Kshs'000'	**Kshs'000'**
Share capital	3,750,000	3,750,000
Accumulated losses	(3,344,778)	(3,016,563)
	405,222	733,437
Tier 2 capital		
Subordinated debt	-	-
Collective impairment allowances	-	-
	-	-
Total regulatory capital	405,222	733,437
Total risk-weighted assets	5,784,146	5,878,973
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets (CBK minimum 12%)	7.0%	12.5%
Total tier 1 capital expressed as a percentage of total Risk weighted assets requirement (CBK Minimum 10%)	7.0%	12.5%

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated.

The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes and activities is undertaken independently of those responsible for the operation, by Risk and Compliance and Credit, and is subject to review by the Board Credit Committee or ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Microfinance Bank Institution to particular operations or activities, it is not the sole basis used for decision making.

Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Microfinance Bank's longer term strategic objectives. The Microfinance Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

		Group		Bank	
		2024	**2023**	**2024**	**2023**
7	**Interest income**	**Kshs'000'**	**Kshs'000'**	**Kshs'000'**	**Kshs'000'**
	Interest Income on Loans	511,631	532,251	511,631	532,251
	Interest Income on Bank Deposits	41,167	47,691	41,167	47,691
	Interest income on Renumerated current A/cs	252	707	80	430
	Interest income from government securities	51,222	49,753	49,913	48,448
		604,272	630,402	602,791	628,820
8	**Interest expenses**				
	Interest Expense on deposits	258,540	236,341	259,213	237,634
	Interest Expense on borrowings*	100,758	41,814	100,758	41,814
	Interest expense on lease liability	22,831	20,884	22,831	20,884
		382,129	299,039	382,802	300,332

* Interest expense on borrowings include Kshs 65 Million which was awarded to Youth Enterprise Development Fund Board (YEDFB) following the determination of the matter where YEDFB was awarded interest on the outstanding amount.

9	**Fees and commission income**				
	Fees and commissions on loans	21,039	34,447	21,039	34,447
	Commissions on guarantees, performance and bid bond income	142,994	71,808	142,994	71,808
	Other fees and commission income*	40,050	43,438	26,224	23,275
		204,083	149,693	190,257	129,530
	Fees and commission expense	-10,327	(16,539)	(9,722)	(16,183)
	Net fees and commission income	193,756	133,154	180,535	113,347

*Other fees and commission income relate to income obtained from money transfer services, ATM issuance and withdrawal charges and income from various products and services offered.Fees and commissions expense relates to commissions paid to agents.

		Group and Bank	
		2024	**2023**
10	**Other operating income**	**Kshs'000'**	**Kshs'000'**
	Foreign exchange gains	(13,354)	(32,372)
	Income from online trading	7,219	5,552
	Income from disposal of assets	416	300
	Audit confirmation Income	21	3
	Loans Written Back	188	-
	Miscellaneous Income	559	53
		(4,951)	(26,464)

	Group		Bank	
	2024	2023	2024	2023
11 Administration and operating expenses	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Office operations and supplies	173,757	194,869	170,960	194,781
Office rent and repairs	3,587	13,353	2,938	12,704
Travelling expenses	9,275	16,360	9,060	16,106
Media and advertising	7,149	6,490	7,149	6,490
Professional fees	19,399	17,118	19,223	16,923
Auditors' remuneration	3,237	2,942	2,951	2,656
Director's emolument	8,031	8,440	8,031	8,440
Other expenses	2,803	3,827	2,803	3,827
	227,238	263,399	223,115	261,927

	Group		Bank	
	2024	2023	2024	2023
12 Staff costs	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Staff salaries and wages	333,272	344,143	319,503	329,815
Contributions to defined contribution scheme	10,561	10,896	10,043	11,166
Other staff costs*	49,090	52,482	46,590	49,953
	392,923	407,520	376,136	390,934

*Other staff costs include staff medical costs, staff training and staff welfare.

	Group		Bank	
	2024	2023	2024	2023
13 Depreciation	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Depreciation on property and equipment	17,475	29,266	16,976	29,127
Depreciation on right-of-use assets	55,373	58,682	55,373	58,682
	72,848	87,948	72,349	87,809

14 Taxation	Group		Bank	
	2024	2023	2024	2023
Tax expenses	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Current tax	(646)	(863)	-	
Deferred tax charge		(213)	-	
	(646)	(1,076)	-	-
Tax recoverable				
At 1 January	(92,353)	(80,830)	(92,776)	(79,904)
Current tax	646	863	-	-
Tax paid	(13,158)	(12,659)	(12,023)	(12,872)
	(104,865)	(92,626)	(104,799)	(92,776)

15 Cash balances and deposits with financial institutions	Group and Bank 2024 Kshs'000'	2023 Kshs'000'
Cash reserve ratio with Central Bank of Kenya*	143,887	142,092
Cash and balances with banks	130,991	130,621
Deposits with banking institutions**	444,136	528,589
Allowance for ECLs	(1,899)	(1,745)
	573,228	657,465

*The cash reserve ratio (relating to restricted funds with the Central Bank of Kenya) is non-interest earning and is based on a percentage of 4.25% of the value of deposits as periodically adjusted by the Central Bank of Kenya. These funds (cash reserve ratio) are not available for use by the bank in its day-to-day operations.

15 Cash balances and deposits with financial institutions

	Group and Bank 2024 Kshs'000'	2023 Kshs'000'
**Deposits with banking institutions		
SBM Bank (Kenya) Ltd	382,492	426,254
Chase Bank (K) Limited (IL)	61,644	61,644
	444,136	487,898
Maturing within 90 days	252,648	211,649
Above 90 days	191,488	276,249
	444,136	487,898

The weighted average effective interest rate on short term deposits with banks as at 31 December 2024 was 9.9% (2023 was 8.6%)
An analysis of gross carrying amounts and corresponding ECL allowances for the year is as follows:

	Stage 1 Individual KShs'000	Stage 2 Individual KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 01 January 2024	1,059,453	-	(258,149)	801,304
Net new assets originated	115,190	-	-	115,190
Payments and assets derecognised		-	(197,481)	(197,481)
At 31 December 2024	1,174,643	-	(455,630)	719,013

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	ECL Allowance KShs'000
ECL allowance as at 01 January 2024	7,450	-	(5,705)	1,746
Payments and assets derecognised		-	(662)	(662)
At 31 December 2024	7,450	-	(6,366)	1,084

16 Investments

	Group		Bank	
	2024	2023	2024	2023
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
a) Investment in Government Securities				
Treasury Bonds	521,151	414,262	510,819	403,704
Premium on Bonds	23,748	7,696	23,748	7,696
Discount on treasury bonds	(203)	(220)	(203)	(220)
Net gain/(loss) on fair valuation	(29,782)	(66,867)	(29,782)	(66,867)
	514,914	354,872	504,582	344,314

	Group and Bank	
	2024	2023
	Kshs'000	Kshs'000
b) Investment in subsidiaries companies		
Investment in subsidiaries companies	15,000	15,000

17 Loan and advances to customers

a) Loans and advance to customers

	2024	2023
Overdrafts	55,576	49,889
Commercial loans	3,552,859	4,047,486
	3,608,435	4,097,375
Accumulated impairment	(985,329)	(904,211)
Net loans and advances	2,623,106	3,193,164
Enterprise	1,937,602	2,251,585
Business banking	1,040,383	1,188,529
Chama Banking	57,677	69,116
Agribusiness	37,112	41,944
Consumer	481,021	489,913
Sacco banking	54,640	56,288
	3,608,435	4,097,375
Less: Accumulated impairment	(985,329)	(904,211)
	2,623,107	3,193,164

The effective interest on customer advances at 31 December 2024 was 18.1% (2023: 16.2%)
Advances to customers are secured by cash collaterals and chattels mortgages.

Suspended interest relates to unrecognised interest on non-performing loans. Interest income is not recognized for loans deemed non - performing.

17 Loan and advances to customers (continued)

b) Accumulated impairment losses

	Group and Bank 2024 Kshs'000	2023 Kshs'000
At 1 January 2024	904,211	687,608
Increase/decrease in suspended interest	56,346	146,537
Allowance for credit impairment for the year	24,772	70,066
At 31 December 2024	985,329	904,211
Suspended interest	642,546	586,200
Provision for doubtful debts	342,783	318,011
	985,329	904,211

The table below shows the credit quality and maximum exposure to credit risk based on bank's internal credit rating system and year end stage classification. The amounts presented are gross of impairment

Group and Bank 2024 Internal rating grade	Stage 1 KShs' 000	Stage 2 KShs' 000	Stage 3 KShs' 000	Total KShs' 000
Normal	1,046,504	-	-	1,046,504
Watch	-	201,217	-	201,217
Substandard	-	-	130,211	130,211
Doubtful	-	-	47,955	47,955
Loss	29	-	2,182,520	2,182,549
Total	1,046,533	201,217	2,360,686	3,608,435

2024 Internal rating grade	Stage 1 KShs' 000	Stage 2 KShs' 000	Stage 3 KShs' 000	Total KShs' 000
Normal	34,460	-	-	34,460
Watch	-	15,240	-	15,240
Substandard	-	-	17,617	17,617
Doubtful	-	-	9,222	9,222
Loss	-	-	908,790	908,790
Total	34,460	15,240	935,629	985,329

An analysis of gross carrying amounts and corresponding ECL allowances for the year is as follows:

Group and Bank	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Gross balance at 1 January 2024	1,374,935	312,344	2,409,770	4,097,048
New financial assets originated or purchase	536,814	70,530	57,533	664,876
Net remeasurement of loss allowance	(196,824)	(55,349)	4,127	(248,046)
Financial assets derecognised	(479,839)	(97,880)	(327,724)	(905,443)
Transfer to Stage 1	60,021	(25,302)	(34,719)	-
Transfer to Stage 2	(100,503)	109,467	(8,964)	-
Transfer to Stage 3	(148,070)	(112,593)	260,663	-
Balance at 31 December 2024	1,046,533	201,217	2,360,686	3,608,435

17 Loan and advances to customers (continued)

b) Accumulated impairment losses (continued)

Group and Bank

	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Gross balance at 1 January 2024	29,658	34,322	840,231	904,211
New financial assets originated or purchase	17,181	4,202	24,078	45,461
Net remeasurement of Assets	47,803	22,980	23,410	94,193
Assets written off				-
Financial assets derecognised	(11,507)	(6,744)	(40,285)	(58,536)
Transfer to Stage 1	3,365	(1,231)	(2,134)	-
Transfer to Stage 2	(6,850)	7,638	(788)	-
Transfer to Stage 3	(45,190)	(45,927)	91,117	-
Balance at 31 December 2024	34,460	15,240	935,629	985,329

The table below shows the transfer to statutory reserve:

	Group and Bank 2024 Kshs'000	2023 Kshs'000
Impairment charge as per IFRS 9 requirements	985,329	904,211
Impairment charge as per CBK prudential guidelines	(929,013)	(765,481)
Transfer to Statutory Reserve	-	-

* Transfer to Statutory reserve is when the CBK Provisions are higher than the IFRS 9. No transfer to statutory reserve have been made

18 Credit loss allowance on financial assets

	Group 2024 Kshs'000	Group 2023 Kshs'000	Bank 2024 Kshs'000	Bank 2023 Kshs'000
Net (write back)/charge on loans and advances (note17)	50,385	71,256	50,385	71,256
Net (write back)/charge on Cash Balances and deposits with financial institutions (note 15)	154	-	154	-
	50,539	71,256	50,539	71,256

19 Related party balances

a) Due from related companies

	Group 2024 Kshs'000	Group 2023 Kshs'000	Bank 2024 Kshs'000	Bank 2023 Kshs'000
Chase Bank Kenya Limited (IL)	72,489	72,457	72,489	72,457
Rafiki Homes	6,184	6,317	6,184	6,317
Rafiki Assurance Agency	(2)	-	10,694	8,375
Allowance for ECLs	(62,039)	(62,039)	(62,039)	(62,039)
	16,632	16,735	27,328	25,110
Current	6,182	6,317	16,878	14,692
Non-current	10,450	10,418	10,450	10,418
	16,632	16,735	27,328	25,110

b) Due to related companies

	Group and Bank 2024 Kshs'000	Group and Bank 2023 Kshs'000
Chase Bank Kenya Limited (IL)	174,459	141,644
Current	-	-
Non-current	174,459	141,644
	174,459	141,644

c) Deposits with financial institutions

Chase Bank Kenya Limited (IL)	61,644	61,644

An analysis of gross carrying amounts and corresponding ECL allowances for the year is as follows:

Group	Stage 1 Individual KShs'000	Stage 2 Individual KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 01 January 2024	(38,070)	-	116,844	78,774
Net new assets originated	32	-	-	32
Payments and assets derecognised	-	-	(133)	(133)
At 31 December 2024	(38,038)	-	116,711	78,673

Bank	Stage 1 Individual KShs'000	Stage 2 Individual KShs'000	Stage 3 KShs'000	ECL Allowance KShs'000
ECL allowance as at 01 January 2024	16,254	-	70,895	87,149
Net new assets originated	2,351		-	2,351
Payments and assets derecognised			(133)	(133)
At 31 December 2024	18,605	-	70,762	89,367

19 Related party balances (continued)

Group and bank	**Stage 1** KShs'000	**Stage 2** KShs'000	**Stage 3** KShs'000	**ECL Allowance** KShs'000
ECL allowance as at 01 January 2024	1,386	-	60,653	62,039
At 31 December 2024	1,386	-	60,653	62,039

Balances due from and due to Chase Bank (K) Limited (IL) are as a result of uncleared cheques and settlements as at the date of receivership.

Both Rafiki Homes and Rafiki Assurance Agency are wholly owned subsidiaries of Rafiki Microfinance Bank Limited. Balances due from Rafiki Homes and Rafiki Assurance Agency arose from reimbursable expenses paid by Rafiki Microfinance Bank Kenya Limited on their behalf.

Included in amount due from Chase Bank Kenya Limited (IL) are interest bearing bank balances. Other outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.
For the year ended 2024, the group recorded Kshs.62,038,924, impairment of receivables relating to amounts owed by related parties (2023: Kshs.62,038,924). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. As at the reporting date, Chase Bank Kenya Limited (IL), controlled the Bank. The other companies are either subsidiaries or are related by virtue of common shareholding and directorship.

d) Loans to employees

	Group and Bank 2024 Kshs'000	2023 Kshs'000
At 1 January 2024	64,606	50,759
Interest charged	5,207	3,345
Loans disbursed	63,997	38,268
Repayments	-64,709	-27,766
At 31 December 2024	69,100	64,606
Current	1,983	6,185
Non-current	67,118	58,421
	69,100	64,606

The loans are secured by property mortgage and assets and are repayable in a period of less than 5 years with an average interest rate of 6%.

Chase Bank (Kenya) Limited (IL) is the parent company of Rafiki Microfinance bank Limited. During the year, the bank did not earn any interest income from the Parent Company (2023– Nil).

19 Related party balances (continued)

e) Key management compensation

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

	Group and Bank 2024 Kshs'000	Group and Bank 2023 Kshs'000
Salaries	62,156	59,071
Contribution to pension scheme	2,606	1,709
	64,761	60,780
Directors' remuneration	8,031	5,865
Fees for services as directors	14,520	14,400
	22,551	20,265

f) Transactions with related parties

Name of related party	Nature of relationship	Nature of transaction	2024 Kshs'000	2023 Kshs'000
Due from related parties				
Rafiki Homes Ltd	Subsidiary	Expenses paid on behalf	6,184	6,317
Rafiki Assurance Agency	Subsidiary	Expenses paid on behalf	10,694	8,375
Chase Bank IL	Parent company	Cheques Settlement	10,450	10,418
			27,328	25,110
Due to related parties				
Chase Bank IL	Parent company	Loan from chase bank	174,459	882,405

g) Deposits due financial institutions

	2024 Kshs'000	2023 Kshs'000
SBM Bank	293,603	309,570
Payable within one year	90,535	106,502
Payable after one year	203,068	203,068
	293,603	309,570

20 Going concern

	Group		Bank	
	2024	2023	2024	2023
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Recuring losses	(297,958)	(430,911)	(290,843)	(433,887)
Accumulated losses	(3,342,626)	(3,007,297)	(3,344,778)	(3,016,563)
Income	448,032	402,824	432,657	380,141
Expenses	745,343	832,659	723,500	814,028
Income to expenses ratio	60%	48%	60%	47%
Core Capital/ Total Risk Weighted Assets	7%			
Minimum Statutory Ratio	10%			
Excess/(Deficiency) (j-k)	-3%			
Total Capital/ Total Risk Weighted Assets	7%			
Minimum Statutory Ratio	12%			
Excess/(Deficiency) (m-n)	-5%			

The financial statements have been prepared on a going concern basis, which assumes that the Bank will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Directors have undertaken a comprehensive review of the Bank's performance, taking into account current and anticipated economic conditions, regulatory and customer behavior changes. The Bank has experienced challenging business environment, as set out under the Directors' Report under clause 7, which have raised uncertainties regarding the business going concern.

In assessing the appropriateness of the going concern assumption, the Directors have given due consideration and identified a strategic investor and subsequently approved by the shareholders of the Bank. The Investor has issued a commitment to provide the Bank with a capital injection of minimum Kshs 750 Million. KDIC is following up with both the proposed strategic investor and Central Bank of Kenya to ensure speedy conclusion of the transaction.

In light of any anticipated delay of the transaction, the shareholder will consider supporting the bank in the intervining period through conversion of debt to equity, to ensure the bank mitigates the dilution of capital.

21 Other assets

	Group 2024 Kshs'000	Group 2023 Kshs'000	Bank 2024 Kshs'000	Bank 2023 Kshs'000
Prepaid expenses	86,122	81,492	85,373	80,514
Guarantee deposits*	21,813	23,314	21,813	23,314
Clearing and settlements	43,459	58,259	39,461	55,474
Accounts receivable	31,494	30,613	19,482	19,158
Deposit suspence a/c	6,259	-	6,259	-
Allowance for ECLs	(35,160)	(35,160)	(35,160)	(35,160)
	153,987	158,518	137,228	143,300
Current	132,174	135,204	115,415	119,986
Non-current	21,813	23,314	21,813	23,314
	153,987	158,518	137,228	143,300

*Guarantee deposits relate to refundable deposits paid towards leases and utilities

An analysis of gross carrying amounts and corresponding ECL allowances for the year is as follows:

Group	Stage 1 Individual KShs'000	Stage 2 Individual KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 01 January 20	193,415	-	578	193,993
Net new assets originated	17,645	-	-	17,645
Payments and assets derecognised	(31,662)	-	-	(31,662)
At 31 December 2024	179,397	-	578	179,975

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	ECL Allowance KShs'000
ECL allowance as at 01 January 2023	13,948	-	22,509	36,457
Payments and assets derecognised	-	-	(907)	(907)
At 31 December 2023	13,948	-	21,602	35,550

Bank	Stage 1 Individual KShs'000	Stage 2 Individual KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 01 January 2024	178,197	-	289	178,486
Net new assets originated	15,970	-	-	15,970
Payments and assets derecognised	(28,095)	-	-	(28,095)
Transfers from stage 1	-	-	-	-
Transfers from stage 2	-	-	-	-
Transfers from stage 3	-	-	-	-
At 31 December 2024	166,072	-	289	166,361

22 Property and equipment
Group

	Computer Equipments Kshs'000	Furniture and fittings Kshs'000	Motor vehicles Kshs'000	Automatic Teller Machines Kshs'000	Office Equipment Kshs'000	Work in progress Kshs'000	Total Kshs'000
Cost							
At 1 January 2023	40,496	465,180	17,922	30,317	94,978	25,904	674,797
Additions	5,370	1,662	-	-	846	1,859	9,737
Transfers from WIP	-	-	-	-	-	(1,105)	(1,105)
Disposals*	-	-	(1,184)	-	(874)	-	(2,058)
At 31 December 2023	45,866	466,842	16,738	30,317	94,950	26,658	681,371
Depreciation							
At 1 January 2023	34,850	403,092	17,922	29,879	81,281	-	567,024
Charge for the year	3,176	19,310	-	427	6,354	-	29,266
Disposals*	-	-	(1,184)	-	(719)	-	(1,903)
At 31 December 2023	38,026	422,402	16,738	30,306	86,916	-	594,388
Net book value							
At 31 December 2023	7,840	44,440	-	11	8,034	26,658	86,983
Cost							
At 1 January 2024	45,866	466,842	16,738	30,317	94,950	26,658	681,371
Additions	1,649	6,140	-	-	512	619	8,920
Transfers from WIP	-	-	-	-	-	-	-
Disposals*	(186)	-	(1,373)	-	-	-	(1,559)
At 31 December 2024	47,329	472,982	15,365	30,317	95,462	27,277	688,732
Depreciation							
At 1 January 2024	38,891	422,402	16,738	30,306	86,916	-	595,253
Charge for the year	3,804	9,226	-	10	4,435	-	17,475
Disposals*	(181)	-	(1,373)	-	-	-	(1,554)
At 31 December 2024	42,514	431,628	15,365	30,317	91,351	-	611,174
Net book value							
At 31 December 2024	4,814	41,354	-	-	4,111	27,277	77,558

* Disposals comprise sale of motor vehicle and Computers

22 Property and equipment
Bank

	Computer Equipments	Furniture and fittings	Motor vehicles	Automatic Teller Machines	Office Equipment	Work in progress	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Cost							
At 1 January 2023	39,786	465,180	17,922	30,317	94,978	25,901	674,084
Additions	4,126	1,232	-	-	846	1,859	8,063
Transfers from WIP	-	-	-	-	-	(1,105)	(1,105)
Disposals*			(1,184)		(874)		(2,058)
At 31 December 2023	43,912	466,412	16,738	30,317	94,950	26,655	678,984
Depreciation							
At 1 January 2023	34,207	403,092	17,922	29,879	81,281	-	566,381
Charge for the year	3,072	19,274	-	427	6,354		29,127
Disposals*	-	-	(1,184)	-	(719)	-	(1,903)
At 31 December 2023	37,279	422,366	16,738	30,306	86,916	-	593,605
Net book value							
At 31 December 2023	6,633	44,046	-	11	8,034	26,655	85,379
Cost							
At 1 January 2024	43,912	466,443	16,738	30,317	94,950	25,764	678,124
Additions	1,649	6,140	-	-	512	619	8,920
Transfers from WIP	-	-	-	-	-	-	-
Disposals*	(186)	-	(1,373)		-		(1,559)
At 31 December 2024	45,375	472,583	15,365	30,317	95,462	26,383	685,485
Depreciation							
At 1 January 2024	37,279	422,366	16,738	30,306	86,916	-	593,605
Charge for the year	3,360	9,172	-	10	4,435		16,977
Disposals*	(181)	-	(1,373)	-	-	-	(1,554)
At 31 December 2024	40,458	431,538	15,365	30,317	91,351	-	609,028
Net book value							
At 31 December 2024	4,917	41,045	-	-	4,111	26,383	76,457

* Disposals comprise sale of motor vehicle and Computers

23 Right-of-use-asset

Year ended 31 December 2024	**Group and Bank 2024 Kshs**	**2023 Kshs**
At start of year	125,611	149,022
Additions	63,176	35,270
Transfers	-	-
Disposal	-	-
Depreciation charge for the year	(55,373)	(58,682)
At end of year	133,414	125,611

The company leases various offices. The leases of offices and branches are typically for periods of between 5 and 8 years, with options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

In the statement of cash flows, the amount for payments for right-of-use assets represents:

For information on the related lease liabilities, see Note 29.

24 Intangible assets

	Group		**Bank**	
	2024 Kshs'000	**2023 Kshs'000**	**2024 Kshs'000**	**2023 Kshs'000**
Cost				
As at 1 January	67,427	66,322	63,947	62,842
Additions	-	1,105	-	1,105
At 31 December	67,427	67,427	63,947	63,947
Amortisation				
As at 1 January	62,833	60,296	60,731	58,629
Amortisation	1,951	2,537	1,516	2,102
At 31 December	64,784	62,833	62,246	60,731
Net book value				
As at 31 December	2,643	4,594	1,701	3,216

The intangible assets include amounts related to the installation of softwares

25 Deferred tax

The movements in the deferred tax account during the year were as follows:

	Group		**Bank**	
	2024 Kshs'000	**2023 Kshs'000**	**2024 Kshs'000**	**2023 Kshs'000**
At 1 January	-636,025	-528,837	-636,737	-529,763
Overprovision in prior years	-1,891	14,555	(1,891)	14,555
Tax credit for the year	-103,262	-122,241	(102,550)	(121,529)
Deferred tax derecognised	740,466	635,811	741,178	636,737
At 31 December	(712)	(712)	-	-

Deferred tax income is calculated using the enacted rate of 30% except for capital gains, for which the enacted tax rate of 15% is used. (2023: 30% and 15%).

25 Deferred tax (Continued)

The net deferred tax asset is attributable to the following items:

	Group		Bank	
	2024 Kshs'000	2023 Kshs'000	2024 Kshs'000	2023 Kshs'000
Accelerated capital allowances	(1,802)	1,205	(1,921)	1,246
Provisions	16,325	19,242	15,116	21,377
Impairment allowance on loans and advances to customers	(342,783)	(318,011)	(342,783)	(318,011)
Tax losses	(412,917)	(338,959)	(411,590)	(341,348)
Deferred tax derecognised	740,466	635,811	741,178	636,736
Deferred tax asset not recognized during the year	(712)	(712)	-	-

Deferred tax asset for the year ended 31 December 2023 of KShs 636,737,000 (2022: KShs 529,763,000) on accumulated tax losses and other temporary differences has not been recognised due to the losses incurred in the last four years. The deferred tax asset will be recognised when the loss trend and projections indicate that the losses will be recovered within the timeliness allowed for the recovery of the tax losses.

26 Share capital

Authorised, issued and fully paid:

	Group		Bank	
	2024 Kshs'000	2023 Kshs'000	2024 Kshs'000	2023 Kshs'000
3,750,000 (2023: 3,750,000) ordinary shares of	3,750,000	3,750,000	3,750,000	3,750,000

The authorised share is capital is divided in to 3.75 million shares of Kshs.1, 000 each amounting to a value of Kshs. 3,750,000,000. These are fully issued and paid up as at 31 December 2024.
Issued and fully paid ordinary shares carry one vote per share and carry a right to dividend. The Bank does not have any stock option in place.

During the year , the company did not have any capital injection.

27 Customer deposits

	Group		Bank	
	2024 Kshs'000	2023 Kshs'000	2024 Kshs'000	2023 Kshs'000
Savings deposits	1,456,779	1,174,404	1,462,628	1,182,035
Current deposits	162,001	185,535	162,001	185,535
Term deposits	1,601,903	1,904,635	1,610,716	1,914,897
	3,220,683	3,264,574	3,235,345	3,282,467
Current	3,220,683	3,264,574	3,235,345	3,282,467
Non-current			-	
	3,220,683	3,264,574	3,235,345	3,282,467

The effective interest rate on customer deposits as at 2024 was 8.11% (2023 – 7.26%)

28 Borrowings

	Group and Bank 2024 Kshs'000	2023 Kshs'000
Subordinated debt		
Ministry of Finance	-	
Other debt		
ResponsAbility	-	60,284
Youth Enterprise Fund	-	95,000
Total borrowings	-	155,284
Current	-	155,284
Non-current		
	-	155,284

The effective interest rate on borrowings at 2024 was 0% (2023: 9.1%). The movements in borrowings were as follows:

	2024 Kshs'000	2023 Kshs'000
At 1 January	155,284	274,112
Principal loan repayment	(152,730)	(115,736)
Interest repayment	(2,554)	(13,908)
Interest accrued during the year	-	10,816
	(0)	155,284

29 Other liabilities

	Group 2024 Kshs'000	Group 2023 Kshs'000	Bank 2024 Kshs'000	Bank 2023 Kshs'000
Accrued expenses	24,288	44,911	22,211	43,970
Other liabilities	82,483	82,040	68,545	69,126
ECLS on off-Balance sheet items	3,115	3,115	3,115	3,115
	109,886	130,066	93,871	116,211

Other liabilities include accounts payable to creditors and Bankers cheques issued as at the end of the year.

30 Lease liabilities

	Group and Bank 2024 Kshs'000	2023 Kshs'000
Non-current	82,022	80,138
Current	85,993	75,541
	168,015	155,679

The total cash outflow for leases in the year was:

Payments of principal portion of the lease liability	71,478	70,989
Interest paid on lease liabilities	22,831	20,884
	94,309	91,873

The leases expiring within one year are subject to review at various dates during the next financial year.

The fair values of lease liabilities equal to their carrying amount, as the impact of discounting is not significant.

The carrying amounts of the company's lease liabilities are denominated in Kenya Shillings.

Maturity based on the repayment structure of lease liabilities is as follows:

	2024 Kshs'000	2023 Kshs'000
Gross lease liabilities - minimum lease payments		
Not later than 1 year	85,993	75,541
Later than 1 year and not later than 5 years	82,022	80,138
Total gross lease	168,015	155,679
Future interest expense on leases liabilities	28,350	33,929
Present value of lease liabilities	196,366	189,607
Present value of lease liabilities - minimum lease payments		
Not later than 1 year	100,015	90,786
Later than 1 year	96,351	98,821
	196,366	189,607

31 Notes to the statement of cash flows

a) Group

	Note	2024 Kshs'000	2023 Kshs'000
Loss before taxation		(334,396)	(394,605)
Adjustments for:			
Allowances for impairment	18	50,539	71,256
Depreciation on property and equipment	21	17,475	29,266
Gain/(Loss) from disposal of Assets		-	5
Amortisation of computer software	23	1,951	2,537
Foreign exchange gain		6,135	26,820
Interest expense on Lease	8	22,829	20,884
Interest expense on borrowings		-	10,816
Changes in operating assets and liabilities:			
(Decrease)/increase in cash ratio reserve		(1,795)	15,282
Increase in loans and advances to customers		519,519	208,683
Increase in right of use asset		(7,803)	23,411
Increase in other assets		4,533	(1,713)
(Increase)/decrease in amounts due from related parties		103	(186)
Increase in customer deposits		(43,896)	(33,113)
(Decrease)/increase in other liabilities		(20,189)	19,726
Increase in Lease Liability		12,336	(17,512)
Decrease in amounts due to related parties		32,812	9,242
Cash used in operations		260,153	(9,202)

b) Bank

	Note	2024 Kshs'000	2023 Kshs'000
Loss before taxation		(327,927)	(398,657)
Adjustments for:			
Allowances for impairment	18	50,539	71,256
Depreciation on property and equipment	22	16,977	29,127
Gain/(Loss) from disposal of Assets			5
Amortisation of computer software	24	1,516	2,102
Foreign exchange gain		6,135	26,820
Interest expense on Lease	8	22,831	20,884
Interest expense on borrowings		-	10,816
Changes in operating assets and liabilities:			
(Decrease)/increase in cash ratio reserve		(1,795)	15,282
Increase in loans and advances to customers		519,519	208,683
Increase in right of use asset		(7,803)	23,411
Increase in other assets		6,077	3,312
(Increase)/decrease in amounts due from related parties		(2,218)	1,814
Increase in customer deposits		(47,121)	(41,189)
(Decrease)/increase in other liabilities		(22,637)	24,360
Increase in Lease Liability		12,336	(17,512)
Decrease in amounts due to related parties		32,815	9,239
Cash used in operations		259,243	(10,248)

31 Notes to the statement of cash flows (continued)

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with Banks, unrestricted current accounts with Central Bank of Kenya and short-term investments in money market instruments, net of bank overdrafts as disclosed in note 15.

32 Contingent liabilities, commitments and leasing arrangements

Capital commitments

To meet the strategic objective of the Bank and our customer need, the Bank enters into various capital commitments to facilitate the construction of Banking Halls to be utilized by the Bank's customers for future business. There were no capital commitments as at 31 December 2024 (2023: Nil)

Contingent Liabilities

The Bank conducts business involving guarantees and performances. The majority of these are offset by corresponding obligations to third parties.

	Group and Bank	
	2024	2023
	Kshs'000	Kshs'000
Letter of guarantee and performance bonds	8,769,079	5,428,426
Expected credit loss	3,115	3,115

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

Lease Arrangements

Operating Lease commitments – Bank as Lessee

The Bank has entered into commercial leases for premises and equipment. These leases have an average life of between 5 and 6 Years with renewal options included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

The future lease payments in respect of obligations under operating leases are as follows:

32 Contingent liabilities, commitments and leasing arrangements (continued)

Lease Arrangements (continued)

	Group and Bank 2024 Kshs'000	2023 Kshs'000
Within one year	100,015	70,989
Between one and five years	96,351	125,625
Over 5 years	-	-
	196,366	196,614

The lease rental expense during the year in respect of bank offices rental amounted to KShs 71 million (2023 – KShs 73 million)

33 Earnings per share

Basic earnings per share is calculated on the profit for the year and on the weighted average number of shares outstanding during year.

Diluted earnings per share is calculated on the profit for the year and on the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares. There were no such dilutive shares at the end of the reporting period.

The following table reflects the profit for the year and share data used in calculating the basic and diluted earnings per share:

	Group 2024 Kshs'000	2023 Kshs'000	Bank 2024 Kshs'000	2023 Kshs'000
Loss for the year attributable to shareholders	(297,958)	(430,911)	(290,843)	(433,887)
Weighted average number of shares	3,750	3,750	3,750	3,750
Basic and diluted earnings per share	(79)	(115)	(78)	(116)

34 Currency

These financial statements are presented in thousands of Kenya Shillings (KShs'000).

35 Incorporation

Rafiki Microfinance Bank Limited is domiciled and incorporated in Kenya under the Kenya Companies Act, 2015. The holding company is Chase Bank (K) Limited (IL), which is domiciled and incorporated in Kenya.