Bank of Baroda (Kenya) Ltd.

ANNUAL REPORT & FINANCIAL STATEMENTS

2020

SHAPING THE FUTURE TOWARDS RESILIENT GROWTH

ABOUT THE BANK

Bank of Baroda (Kenya) Ltd. started its journey on 14th December 1953. The first Branch of the Bank was opened at Mombasa in Kenya. Today Bank has a total of -13- branches spanning across Kenya. The Bank's vision is to be the most respected and prefered Bank, striving to enhance stakeholders value with concern, care and competence. The Bank is offering all types of Banking services for its customers and for the past 67 years has been contributing towards socio economic up-liftment of the country.

The Bank has been able to place itself as a dominant player in the Kenyan Banking Industry. It is committed to deliver in all vital sectors of the economy through lending to various sectors viz. Manufacturing, Trading, Agriculture etc. The Bank has been placed in the category Tier II Banks with a good public image and customer confidence.

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Principal shareholder	Bank of Baroda, India - 86.70%
Country of Incorporation and domicile	Kenya

Principal officers

Mr. Saravanakumar A.	Managing Director
Ms. Janeliza Mgohi Mkoji	Secretary to the MD
Mr. Ravi Kant Pathak	Head of Operations & DMD
Mr. Winston Sore	Head of Internal Audit
Mr. Bhavik Trivedi	Head of Treasury
Mr. Andrew W. Lukuyani	Head of Credit
Ms. Maria Gorett Makokha	Head of Treasury (Back Office)
Mr. Patrick Sila	Head of Finance
Mr. Lusiji Patrick Kombe	Head of Information Technology
Mr. David M Kilonzi	Head of Risk Management and Compliance
Mr. Kennedy Machoka	Sr. Manager - Administration
Mr. Ashish Bajaj	In-charge Credit Monitoring & Secy. to board
Mr. James K Kimintah	HR - In-charge
Mr. Dhirajlal N. Shah	Manager - Marketing
Mr. Avishek Banerjee	Marketing - In-charge
Mr. Mukesh Kumar	Branch Head - Digo Rd Branch, Mombasa
Mr. Jitendra Kumar	Branch Head - Thika Branch
Mr. Suneel Karanam	Branch Head - Kisumu Branch
Mr. Rakesh Mishra	Branch Head - Sarit Centre Branch, Nairobi
Mr. Vivek Kr. Srivastava	Branch Head - Industrial Area Branch, Nairobi
Mr. Digvijay S. Rawat	Branch Head - Eldoret Branch
Mr. Sanjay Pratap	Branch Head - Nakuru Branch
Mr. B. Vijaya Kumar	Branch Head - NMO Branch, Nairobi
Mr. Paul M. Kairu	Branch Head - Kakamega Branch
Ms. Neela K. Raj	Branch Head - Nyali Branch, Mombasa
Mr. Richard Ngahu	Branch Head - Meru Branch
Mr. Amardeep Singh	Branch Head - Diamond Plaza Branch, Nairobi
Mr. Prasanta Kumar Padhi	Branch Head - Mombasa Road Branch, Nairobi

Registered office

Baroda House, 90, Muthithi Road
P.O. Box 30033-00100, Nairobi, Kenya
Telephone: (020) 2248402, 2248412
Website: www.bankofbarodakenya.co.ke
E-Mail: ho.kenya@bankofbaroda.com

Principal correspondent banks

Bank of Baroda - Mumbai, India
Bank of Baroda - New York, U.S.A.
Bank of Baroda - London, U.K.
Bank of Baroda - Brussels, Belgium
Bank of Baroda - Sydney, Australia
Bank of India - Tokyo, Japan
Bank of Montreal - Toronto, Canada
Union Bank of Switzerland - Zurich, Switzerland

Independent auditor

Grant Thornton
Certified Public Accountants (Kenya)
5th Floor, Avocado Towers
Muthithi Road, Westlands
P.O. Box 46986-00100
Nairobi

Legal advisors

Hamilton Harrison & Mathews Advocates
A.B. Patel & Patel Advocates
Mwaura & Wachira Advocates
Anjarwala & Khanna Advocates
L.G. Menezes

Company secretary

Africa Registrars
Certified Public Secretaries (K)
Kenya-Re Towers, Upperhill
P.O. Box 1243-00100
Nairobi

Principal valuers

Njihia Njoroge & Co
Crystal Valuers Limited
Datoo Kithiku Limited
Coral Properties Limited
Chrisca Real Estates

HEAD OFFICE, NAIROBI

Baroda House, 90, Muthithi Road,
P.O.Box 30033-00100 ,Nairobi, Kenya

Telephone : +254 (020) 224 8402/2248412

Website: www.bankofbarodakenya.co.ke
E-mail: ho.kenya@bankofbaroda.com

BRANCH NETWORK

Digo Road Branch, Mombasa
P. O. Box 90260-80100
Plot No.XXV/61, Kizingo, Mombasa
Telephone : (041) 2224507/8,2226211
E-mail: digoro@bankofbaroda.com

Thika Branch, Thika
Kenyatta Avenue,
P.O. Box 794-01000, Thika
Telephone : +254 (067) 222379/2230048
E-mail: thika@bankofbaroda.com

Kisumu Branch, Kisumu
Central Square,
P.O. Box: 966-40100, Kisumu
Telephone : (057) 2021768/74, 2020303
E-mail: kisumu@bankofbaroda.com

Eldoret Branch, Eldoret
Chardor Patel Plaza, Moi Street,
P.O. Box 1517 -30100, Eldoret
Telephone : +254 (053) 2063341
E-mail: eldoret@bankofbaroda.com

Nairobi Main Branch, Nairobi,
Baroda House, 29 Koinange Street,
P.O.Box 30033-00100, Nairobi
Telephone : +254 (20) 2220575/2226416
E-mail: nairobi@bankofbaroda.com

Industrial Area Branch, Nairobi
Industrial Area, Enterprise Road,
P.O. Box 18269-00500 , Nairobi
Telephone : +254 (20) 6555971/6555945
E-mail: indust.nairobi@bankofbaroda.com

Sarit Center Branch, Nairobi
Sarit Centre, Lower Ground Floor,
P.O. Box 886-00606,Nairobi
Telephone : +254 (20) 3752590/91
E-mail: sarit@bankofbaroda.com

Diamond Plaza Branch, Nairobi
First Floor, Diamond Plaza, Masari Road,
P.O. Box: 13709-00800, Nairobi
Telephone : +254 (020) 3742257/3742263
E-mail: dp.nairobi@bankofbaroda.com

Mombasa Road Branch, Nairobi
Somak House (Ground Floor), Near Airtel Bldg,
P.O. Box No. 18948 – 00500
Mombasa Road, Nairobi
Telephone : +254 (020) 6829118/6829119
E-mail: mombasaroad@bankofbaroda.com

Kakamega Branch, Kakamega
Kenyatta Avenue,
P.O. Box 2873, Kakamega
Telephone : +254 (056) 2111777
E-mail: kakamega@bankofbaroda.com

Meru Branch, Meru
Brown Rock Building, Njuri Ncheke Street,
P.O. Box No. 2762-60200,Meru
Telephone : +254 (020) 2341342/056-3130623
E-mail: meru@bankofbaroda.com

Nakuru Branch, Nakuru
Vikers House, Kenyatta Avenue,
P.O. Box 12408-20100, Nakuru
Telephone : +254 (051) 2211718/9
E-mail: nakuru@bankofbaroda.com

Nyali Branch, Mombasa
Ground Floor, Texas Tower, Nyali Road ,
P.O. Box: 95450-80106,Mombasa
Telephone : +254 (041) 4471103/4471104
E-mail: nyali@bankofbaroda.com

BANK AT A GLANCE
As at 31st December 2020

Ksh. 135 Billion	Total Deposits
Ksh. 51.15 Billion	Total Advances
Ksh. 186.15 Billion	Total Business
Ksh. 4.52 Billion	Net Profit
30.88%	Capital Adequecy
Ksh. 166.31 Billion	Total Assets
Ksh. 26.68 Billion	Share Holders Fund
Ksh. 269.54	Book Value Per Share
Ksh. 0.77 Billion	Business Per Employee

BOARD COMMITTEES

The board committee as at the date of this report comprise:

Board Audit Committee	Board Credit Committee	Board Risk Management Committee
	Composition	
Three Directors (Non-Executive)	Two Director (Executive) Three Directors (Non-Executive)	One Director (Executive) Two Directors (Non-Executive)
	Main Function	
Stengthening the control environment, financial reporting and auditing function.	Appraisal and approval of credit applications and reviewing credit portfolio.	Ensuring quality, integrity and reliability of the Bank's risk management function.
	Frequency of meetings per annum (minimum)	
Quarterly	Quarterly	Quarterly
	Chairperson	
Dr. Winifred N. Karugu	Mr. Ramesh C. Mehta	Dr. Winifred N. Karugu
	Members	
Dr. Krishnama Chary Mudumba Mr. Ramesh C. Mehta	Dr. Krishnama Chary Mudumba Dr. Winifred N. Karugu Mr. Saravanakumar A Mr. Ravi Kant Pathak	Dr. Krishnama Chary Mudumba Mr. Saravanakumar. A

CHAIRMAN'S REPORT

Dear Stakeholders,

It is my utmost pleasure to present our Bank's performance highlights for the financial year 2020. This report presents the progress of business towards the goal of being a top bank in sustainable performance and customer satisfaction. However, before engaging you further, I find it relevant to give a brief overview of how the country's economy has fared during the year and the likely implications of Covid-19 in the banking sector.

KENYAN ECONOMY

As you are aware, this has been an unprecedented year for human kind – a year in which individuals, businesses and even institutions have been affected by the onslaught of the COVID-19 pandemic in the country. To comply with the World Health Organization's prevention protocols, restrictions were put in place, including limitations on movement and travel, social distancing and constrained interaction leading to an economic crisis. As per the IMF report, the GDP growth for the year ended December 2019 was 5.4%, however in the year 2020 the GDP growth of Kenya was -1.5%. The contraction was largely driven by the adverse effect from closure of Hotel, Hospitality and Entertainment activities and containment / movement restrictions in the Transport sector. Nevertheless, now there is general optimism and the economy is projected to grow at an average of 7.6% in the year 2021. Despite this positivity, Standard & Poor's revised the country`s credit rating to 'B' with a Negative outlook from 'B+'. The rating was based on the lower economic performance due to the pandemic and the high debt levels that are increasing the country's vulnerability.

PERFORMANCE OF THE BANK

The Bank's 2020 financial results reflect resilience and a determined management team uniquely differentiated by the decisions it made in order to weather COVID-19 disruptions and register positive growth. Total Gross Deposits grew from Kshs 117.173 Billion in December 2019 to Kshs 135.000 Billion as at December 31, 2020. With little or no business investment opportunities arising due to Covid-19 effects and reduced discretionary spending, most investors opted to keep their money with banks mostly in form of fixed deposits thereby boosting the year's growth. Total Advances increased from Kshs 50.052

Billion as at December 31, 2019 to Kshs 51.151 Billion in the reporting year ended December 31, 2020. The lower growth in our advances was majorly attributed to the closure of -4- major stressed accounts to the tune of Kshs 1.5 Billion under our exit policy. By the close of the year, proposals worth Kshs 8.62 Billion were sanctioned but could not be disbursed for various reasons and we are confident that these proposals will boost our loan book in the current year. The Total Business of the Bank thus went up from Kshs 167.225 Billion as at December 31, 2019 to reach Kshs 186.151 Billion as at December 31, 2020.

Our government securities investments grew by 30.17% to close at Kshs 99.921 Billion as at December 31, 2020 compared to Kshs 76.763 Billion as at December 31, 2019.

The Ratio of Gross NPA as a percentage of total advances stood at 12.40% as at December 31, 2020.

The Bank registered Gross Profit of Kshs 6.591 Billion for the period ended December 31 2020, while the Profit after Tax increased by 10.51% to reach Kshs 4.523 Billion as compared to Kshs 4.093 Billion of year 2019.

ACHIEVEMENTS

In 2020, Bank upgraded its Core Banking System from Finacle 7 to Finacle 10. This has facilitated better customer service and faster turnaround time. The bank continued to transform itself into a more digitized operating business model by upgrading and adding new features to its Mobile Banking facility (Baroda Mobi) to enhance customer service delivery. To be at par with our major players in the sector technology wise, our bank has further strengthened the Internet Banking facility for transfer of funds to India and linkage of Integrated Population Registration Services (IPRS) with our core banking system. We are hopeful that these measures will be a big plus in canvassing new business and also to get a holistic view of customer profile.

Bank also revamped its website for better user navigation features and lead capture facility along with an online complaint resolution module. We were the first bank in the country to introduce a Credit Risk Rating Module (BOBRAM) and all Branches have completed rating of the accounts above Kshs 25 million. During the year, we continued with our special efforts of getting more local people into the Bank's system by enhancing our visibility through advertisements in newspapers, outdoor displays, Radio promotions and other digital marketing platforms. We relocated our Head Office operations to our newly constructed Head Office Block which was virtually inaugurated on 18th June 2020.

FUTURE OUTLOOK

The Board of Directors comprises of eminent professionals who are well versed in corporate governance and will be continuously guiding the management to achieve the business goals which are beneficial to all stakeholders, as well as to come up with purpose-driven business models that are agile to change and also adaptive to the business environment. We are planning to introduce travel/prepaid cards in USD currency. Moreover, we are in the final stages of revamping internet Banking (Baroda Connect) and upgrading Mobile Banking platform.

ACKNOWLEDGEMENTS

I take this opportunity to thank the Kenyan Government, Regulators and Bank's Customers for their support throughout the year. I also express my gratitude to the Managing Director, my fellow Directors and Bank's Staff for the co-operation and contribution in making this bank a value-based organization which is both People-Centric and Performance-Driven. I sincerely thank the shareholders for their trust, with the assurance that the Bank shall always strive for continuous growth in business and excellence in its operations and services.

Yours sincerely,

Vikramaditya Singh Khichi
Chairman
Bank of Baroda (Kenya) Ltd.

BOARD OF DIRECTORS

Mr. Vikramaditya Singh Khichi

Age: 58 yrs

Nationality: Indian

Position: Chairman

Qualifications:
B. Sc; CAIIB;
MBA -Finance & Marketing,
Associate of Insurance Institute of India

Appointment Date:
September 2, 2019

Other Directorships:
Bank of Baroda (India) -Executive Director
Baroda Asset Management (India) Limited
BOB Financial Solutions Limited
India First Life Assurance Company Limited
Indo Zambia Bank Ltd

Percentage of individual share holding in the bank:
None

Dr. Krishnama Chary Mudumba

Age: 59 yrs

Nationality: Indian

Position: Non-executive Director

Qualifications:
M.Com; LLB,
Phd (Banking & Finance),
MBA - Marketing, CAIIB

Appointment Date:
July 4, 2019

Other Directorships:
Bank of Baroda (Botswana) Ltd
Bank of Baroda (Uganda) Ltd

Percentage of individual share holding in the bank:
None

Mr. Saravanakumar A.

Age: 51 yrs

Nationality: Indian

Position: Managing Director

Qualifications:
B. E (Agr), DCO,
MBA -Banking & Finance,
CAIIB, PGDFM, DTIRM

Appointment Date:
November 8, 2017

Other Directorships:
None

Percentage of individual share holding in the bank:
Two shares held in trust

Mr. Patrick K. Njoroge

Age: 54 yrs

Nationality: Kenyan

Position: Non-executive Director

Qualifications:
ICPAK, ACIB, MBA
Institute of Directors

Appointment Date:
August 18, 2014

Other Directorships:
Kenya Association of Investments Group
East Africa Capital Consultants
Algorithm Limited
Amalgamated Chama Limited
Genafrica Asset Managers Limited

Percentage of individual share holding in the bank:
None
*Resigned on 17th August 2020

Dr. Winifred N. Karugu

Age: 64 yrs

Nationality: Kenyan

Position: Non-executive Director

Qualifications:
Phd. Economics
Msc. Agriculture (Econ)
Bsc. Agriculture

Appointment Date:
June 3, 2016

Other Directorships:
Kargua Construction
Mirie Cousins Ltd
Erian Heights Ltd

Percentage of individual share holding in the bank:
None

Mr. Ramesh Chunilal Mehta

Age: 73 yrs

Nationality: Kenyan

Position: Non-executive Director

Qualifications:
BBM

Appointment Date:
Mar 28, 2017

Other Directorships:
Western Emporium (1975) Co, Ltd

Percentage of individual share holding in the bank:
0.89% (882,400 shares held in joint names)

Mr. Ravi Kant Pathak

Age: 44 yrs

Nationality: Indian

Position: Executive Director

Qualifications:
MSc Maths, PGDCA, MCA, Associate Member IIBF, CAIIB

Appointment Date:
October 06, 2020

Other Directorships:
None

Percentage of individual share holding in the bank:
None

CORPORATE GOVERNANCE

The Bank places strong importance on maintaining a sound control environment and applying the highest standards to continue its business integrity and professionalism in all areas of operations. It shall continue its endeavour to increase shareholders' value by protecting their interests and defending their rights by ensuring performance at all levels and maximizing returns with minimal use of resources in its pursuit of excellence in corporate life.

1. Respective responsibilities

The shareholders' role is to appoint the Board of Directors and the external auditor. This role is extended to holding the Board accountable and responsible for efficient and effective governance.

The Board of Directors is responsible for the governance of the bank, and to conduct the business and operations of the Bank with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

2. Board of directors

The composition of the Board is set out on pages 8 to 9. The Board is chaired by Non-Executive Director and comprises of the Managing Director, one Executive Director and Four Non-Executive Directors.

All Non-Executive Directors are independent of management. The Board has varied and extensive skills in the areas of banking, business management, accountancy and information communication and technology. The Directors' responsibilities are set out in the Statement of Directors Responsibilities on page 13 . The Directors are responsible for the development of internal financial controls which provide safeguard against material misstatements and fraud and also for the fair presentation of the financial statements.

The board meets on a quarterly basis and has a formal schedule of matters reserved for discussion.

During the year under review, the Board meetings were held on the following dates:

- January 17, 2020
- March 27, 2020
- June 18, 2020
- September 18, 2020
- December 15, 2020

The attendance of individual directors is as shown in the table at he bottom of this page.

The board has appointed various sub-committees to which it has delegated certain responsibilities with the chairperson of the sub-committee reporting to the board. The composition of the sub-committee is set out on page 5.

3. Board performance evaluation

In compliance with the Prudential Guidelines issued by the Central Bank of Kenya and also part of good Corporate Governance, each member of the Board including the Chairman conducted a peer evaluation exercise for the year 2020. This involved a self review of the Board's capacity, functionality and effectiveness of performance against its set objectives. This enabled the Board to assess its areas of strengths and weakness and then know how to balance its skills, expertise and knowledge.

The Board Performance evaluation covered the following:

(a) The Board Self Evaluation

The Board's performance during the year was evaluated by each member where members were allowed to give their opinion on how the Board had performed. Members were satisfied that the Board had performed to their expectations.

(b) The Board chairman's Evaluation

The Board members assessed the Chairman's performance and noted that the Board managed to achieve its business targets for year 2020 under his Chairmanship. The Chairman was evaluated as effective during the year.

(c) The Director Peer Evaluation

A Directors' Peer evaluation exercise was conducted for each member. Each director observes performance of fellow Director.

4. Board Committees

Board Audit Committee

The committee comprises three Non-Executive Directors. The committee meets on a quarterly basis and its functions include:

Name of director	Period	Meetings held during their tenure	Meetings attended
Mr. Vikramaditya Singh Khichi	01 January 2020 to 31 December 2020	6	6
Mr. Dr. Krishnama Chary Mudumba	01 January 2020 to 31 December 2020	6	6
Mr. Saravanakumar A.	01 January 2020 to 31 December 2020	6	6
Mr. Patrick K Njoroge	01 January 2020 to 17 August 2020	4	4
Dr. Winfred N. Karugu	01 January 2020 to 31 December 2020	6	6
Mr. Ramesh Chunilal Mehta	01 January 2020 to 31 December 2020	6	6
Mr. Ravi Kant Pathak	06 October 2020 to 31 December 2020	1	1

- Monitoring and strengthening the effectiveness of management information and internal control systems.
- Review of financial information and improving the quality of financial reporting.
- Strengthening the effectiveness of internal and external audit functions, and deliberating on significant issues arising from internal and external audits and inspections carried out by the Bank Supervision Department of Central Bank of Kenya.
- Increasing the stakeholders' confidence in the credibility and stability of the institution.
- Monitoring instances of non-compliance with the International Financial Reporting Standards, applicable legislation and the Central Bank of Kenya Prudential Regulations and other pronouncements.

Board Credit Committee
The committee is chaired by a Non-Executive Director and comprises of the two Executive Directors, two Non-Executive Directors and the Head of Credit as convener. It meets at least once every quarter. The functions of the committee include Credit monitoring, appraisal and approval of credit applications based on limits set by the Board. The committee also monitors and reviews non-performing advances and ensures that adequate loan loss provisions are held against delinquent accounts in accordance with the guidelines issued by the Central Bank of Kenya and International Accounting Standards Board.

Board Risk Management Committee
The committee, chaired by a Non-Executive Director and comprising Managing Director and two other Non-Executive Directors, meets on a quarterly basis to ensure quality, integrity and reliability of Risk Management function and programme by way of assisting the Board of Directors in the discharge of duties relating to the corporate accountability, reviewing the integrity of the risk control systems, monitoring external developments relating to the practice of corporate accountability and providing independent and objective oversight.

5. Management Committees

Asset and Liability Committee (ALCO)
The committee, chaired by the Managing Director, comprising Executive Director and various departmental heads, meets on a monthly basis to discuss operational issues and to monitor and manage the statement of financial position to ensure that adequate resources are available to meet anticipated fund demands and to monitor compliance with all statutory requirements.

The committee is also responsible for developing a framework for monitoring the banking risks including operational, liquidity, maturity, interest rate and exchange rate risks.

Executive Committee (EC)
The committee, chaired by Executive Director and comprising various departmental heads, meets at least three times a year to implement operational plans, annual budgeting, periodic reviews of operations, strategic plans, ALCO strategies, identification and management of key risks and opportunities.

Business Continuity Planning Committee (BCPC)
The committee, chaired by the Managing Director, comprising of Executive Director and various departmental heads, meets on half yearly basis to identify business function groups, Business Impact Analysis (BIA), Prioritization, fixation of Recovery Time Objectives (RTO) / Recovery Point Objective (RPO) for the function groups and identification of the threats to which the Business Processes are exposed and the assessment of the potential damage and disruption associated with these threats realized.

Information & Communication Technology Committee (ICTC)
The committee, chaired by the Managing Director, comprising of Executive Director and various departmental heads, meets on half yearly basis to oversee and report the effectiveness of strategic Information & Communication Technology (ICT) planning, the ICT Budget and actual expenditure, and the overall ICT performance to the Board of Directors and Senior Management periodically.

Directors' Remuneration
The remuneration to all Directors is based on the responsibilities allocated to the Directors, and is subject to regular review to ensure that it adequately compensates them for the time spent on the affairs of the Bank.

Relationship with Shareholders
The Bank is a private limited liability company with the details of the main shareholder set out on the general information page.

Shareholders have full access through the Managing Director to all information they require in respect of the Bank and it's affairs. In accordance with the guidelines issued by the Central Bank of Kenya, the Bank publishes quarterly accounts in the local newspapers.

Mr. Saravanakumar A.
Managing Director

DIRECTORS' REPORT

The directors submit their report together with the audited annual report and financial statements for the year ended 31 December 2020.

1. Principal activities

The bank is licensed under the Banking Act and provides banking, financial and related services.

There have been no material changes to the nature of the bank's business from the prior year.

2. Economic review and activities

Economic contraction, downturn continue to be registered in Kenya just like the rest of the world, the Covid-19 pandemic has drastically affected Kenya's economy and with projections showing that the virus will be around for much longer than anticipated. This impact is expected to further derail the country`s future growth outlook. With most businesses being affected, particularly in the hospitality, tourism and export-import sectors, it is expected that the economy will contract significantly.

According to a new directive by the regulator, Banks will have to get the approval of the Central Bank of Kenya (CBK) before declaring dividends for the current financial year ending December 31, 2020. This is focused on ensuring lenders have enough capital to ride out of the Covid-19 pandemic. The Boards of banks intending to pay dividends will really have to justify the decision. The CBK sees Covid-19 as a major disruption that requires banks to change their current models and assumptions by making them more conservative.

3. Performance appraisal

The annual report and financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015. The accounting policies have been applied consistently compared to the prior year, except for the adoption of new or revised accounting standards as set out in Note 1.

Gross deposits increased by Kshs 17.827 Billion to reach Kshs 135.000 Billion as at the reporting period compared to Kshs 117.173 Billion as at December 2019.

Gross advances have increased by Kshs 1.099 to close at Kshs 51.151 Billion as at December 31, 2020 compared to Kshs 50.052 Billion as at December 31, 2019.

Total Business increased by Kshs 18.926 Billion to close at Kshs 186.151 Billion in the same period compared to Kshs 167.225 Billion as at December 31, 2019.

Investment in Government Securities closed at Kshs 99.921 Billion as at December 31, 2020 compared to Kshs 76.763 Billion as at December 31, 2019. The Bank is continuously assessing and investing excess liquidity by way of investments placement in high yielding Treasury Bonds and Treasury Bills and with our various overseas territories at good / high rates.

4. Future outlook

Full Fledged Marketing Set Up to have focused approach on retail and corporate clients predominantly mobilizing local population business.

To have a strong credit monitoring system to ensure that credit risk is mitigated and quality of assets is maintained within the desired standards.

The Bank is targeting to increase retail business by way of offering technologically advanced mobile banking and internet banking which will result in increase of CASA.

We are also planning to tie up with corporate customers to provide them with customized offers on retail loans, CASA products and other retail services.

5. Share capital

There have been no changes to the authorised or issued share capital during the year under review.

6. Dividends

The directors propose a final dividend of Ksh 20 per share (2020: Ksh 20 per share) amounting to Ksh 1.979 billion (2019: Ksh 1.979 billion).

7. Directors

The directors in office at the date of this report are as follows:

Director	Nationality
Mr. Vikramaditya Singh Khichi	Indian
Mr. Saravanakumar A.	Indian
Dr. Krishnama Chary Mudumba	Indian
Mr. Ramesh Chunilal Mehta	Kenyan
Dr. Winifred N. Karugu	Kenyan
Mr. Ravi Kant Pathak	Indian

8. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

9. Statement of disclosure to the company's auditor

With respect to each person who is a director on the day that this report is approved:

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

10. Terms of appointment of the auditor

Grant Thornton continues in office in accordance with the bank's Articles of Association and Section 719 (2) of the Kenyan Companies Act, 2015 and subject to Section 24(1) of the Banking Act (Cap. 488). The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

11. Approval of financial statements

The annual report and financial statements were approved at a meeting by the directors on 19 March 2021 and were signed on its behalf by:

By order of the Board,

Africa Registrars

Africa Registrars Secretaries
Company secretary

STATEMENT OF DIRECTORS' RESPONSIBILITY

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

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

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

Having made an assessment of the bank's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the bank's ability to continue as a going concern.

The directors acknowledge that the independent audit of the annual report and financial statements does not relieve them of their responsibilities.

The annual report and financial statements set out on pages 17 to 63, which have been prepared on the going concern basis, were approved by the directors on 19 March 2021 and were signed on its behalf by:

Mr. Saravanakumar A.
Managing Director

Mr. Ravi Kant Pathak
Director

INDEPENDENT AUDITOR'S REPORT

To the shareholder of Bank of Baroda (Kenya) Limited

Report on the Audit of the Annual Report And Financial Statements

Opinion

We have audited the annual report and financial statements of Bank of Baroda (Kenya) Limited set out on pages 17 to 63, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual report and financial statements, including a summary of significant accounting policies.

In our opinion, the annual report and financial statements present fairly, in all material respects, the financial position of Bank of Baroda (Kenya) Limited as at 31 December 2020, and 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 for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual report and financial statements section of our report. We are independent of the bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of annual report and financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual report and financial statements of the current period. These matters were addressed in the context of our audit of the annual report and financial statements as a whole, and in forming Our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.

Responsibilities of the Director for the Annual Report and Financial Statements

Directors are responsible for the preparation and fair presentation of the annual report and financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the management determines is necessary to enable the preparation of annual report and financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the Annual Report And Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual report and 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 International Standards on Auditing 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 annual report and financial statements.
As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual report and financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual report and financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual report and the financial statements, including the disclosures and whether the annual report and financial statement

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

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

Report on other legal and regulatory requirements

In our opinion the information given in the report of the directors on page 12 - 13 is consistent with the annual report and financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report was A. K. Siale - P/No. 1690.

Grant Thornton

Grant Thornton
Certified Public Accountants (Kenya)
Nairobi
30th March, 2021
B/108/1220/___/0321/AUD

Bank of Baroda (Kenya) Ltd.

Regulated by Central Bank of Kenya

Bank of Baroda Kenya brings laurels

Bank with the lowest charges on Loans - **Winner**

The Best Bank - 1st **Runner Up** under Tier II category

Best Bank in SME Banking - 1st **Runner Up**

Most Efficient Bank 1st **Runner Up**

Best Bank

Think BUSINESS Knowledge for a Competitive Edge

BANKING AWARDS 2020

Bank of Baroda Kenya wins four prestigious awards at the Think Business Banking Awards 2020. Serving our valued customers over the past six decades, these laurels serve as a testament to our persistent efforts and dedication. With the solitary aim of providing superior and uninterrupted service to our customers, we have only stayed true to our word.

www.bankofbarodakenya.co.ke

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Statement of Profit or Loss and Other Comprehensive Income

Figures in Kenyan Shilling ('000)	**Note(s)**	**2020**	**2019**
Interest income	4	15,451,902	13,785,243
Interest expense	5	-7,826,859	-7,049,476
Net interest income		**7,625,043**	**6,735,767**
Fees and commission income		188,105	194,021
Foreign exchange trading income		123,863	146,872
Other income	6	166,993	673,082
Operating expenses	7	-1,473,505	-1,467,533
Impairment losses on loans and advances	9	-800,710	-773,408
Operating profit		**5,829,789**	**5,508,801**
Finance costs	10	-39,265	-42,601
Profit before taxation		**5,790,524**	**5,466,200**
Taxation	11	-1,267,999	-1,373,432
Profit for the year		**4,522,525**	**4,092,768**
Basic and diluted (Ksh per share)	35	45.69	41.35
Dividend			
Proposed final dividend for the year	37	1,979,434	1,979,434
Dividend per share (Ksh per share)	37	20.00	20.00
Profit for the year		**4,522,525**	**4,092,768**
Other comprehensive income:			
Fair value gain and (losses) on financial assets			
- government securities		1,149,847	-80,797
- corporate bonds		-	-624
- quoted shares		-160,044	1,063
Other comprehensive income for the year net of taxation		**989,803**	**-80,358**
Total comprehensive income for the year		**5,512,328**	**4,012,410**

The amounts included in other comprehensive income are net of taxation.

The accounting policies on pages 23 to 33 and the notes on pages 35 to 63 form an integral part of the annual report and financial statements.

Statement of Financial Position as at 31 December 2020

Figures in Kenyan Shilling ('000)	Note(s)	2020	2019
Assets			
Cash in hand	14	314,674	371,699
Balance with Central Bank of Kenya	15	6,759,736	7,463,135
Government securities	16	99,901,571	76,743,619
Placement with other banks	17	9,876,362	9,955,536
Other assets	18	491,097	627,920
Loan and advances to customers	19	47,635,245	46,941,977
Investments securities	20	19,560	19,720
Current tax receivable	12	79,325	-
Right-of-use assets	21	427,757	303,704
Intangible assets	22	2,994	5,002
Property, plant and equipment	23	797,928	795,106
Deferred tax	24	6,281	83,917
Total Assets		**166,312,530**	**143,311,335**
Equity and Liabilities			
Liabilities			
Customer deposits	25	135,000,214	117,173,436
Borrowings with other banks	29	3,405,580	2,167,289
Lease liabilities	30	478,789	326,361
Current tax payable	12	-	29,903
Other liabilities	31	751,272	671,684
		139,635,855	**120,368,673**
Equity			
Share capital		1,979,434	1,979,434
Reserves	26	1,051,501	61,698
Statutory loan loss reserve	27	-	223,812
Retained income	28	21,666,306	18,698,284
Proposed dividends		1,979,434	1,979,434
		26,676,675	**22,942,662**
Total Equity and Liabilities		**166,312,530**	**143,311,335**
Off balance sheet item			
Letters of credit, guarantees and acceptances		5,863,528	5,278,183
Forwards, spots, swaps and options	34	282,164	50,725
Bills sent for collection	34	1,422,732	1,691,508
		7,568,424	**7,020,416**

The annual report and financial statements and the notes on pages 35 to 63, were approved by the directors on the 19 March 2021, and were signed on its behalf by:

Mr. Saravanakumar A.	**Mr. Ravi Kant Pathak**	**Dr. Winfred N. Karugu**	**Africa Registrar**
Managing Director	Director	Director	Company Secretary

The accounting policies on pages 23 to 33 and the notes on pages 35 to 63 form an integral part of the annual report and financial statements.

Statement of Changes in Equity

Figures in Kenyan Shilling ('000)	Share capital	Fair value reserve	Statutory loan loss reserve	Retained income	Total reserves	Proposed dividends	Total equity
Balance at 01 January 2020	**1,979,434**	**61,698**	**223,812**	**18,698,284**	**285,510**	**1,979,434**	**22,942,662**
Restated opening balance as per IFRS 9	-	-	-	-	989,803	-	-
Total comprehensive income for the year	-	989,803	-	4,522,525	989,803	-	5,512,328
Total adjusted balance	**-**	**989,803**	**-**	**4,522,525**	**-223,812**	**-**	**5,512,328**
Transfer to statutory loan loss reserve	-	-	-223,812	223,812	-	-	-
Restatement opening balance as per IFRS 9	-	-	-	201,119	-	-	201,119
Dividends paid	-	-	-	-	-	-1,979,434	-1,979,434
Dividends proposed	-	-	-	-1,979,434	-223,812	1,979,434	-
Total changes	**-**	**-**	**-223,812**	**-1,554,501**	1,051,501	**1,979,434**	**1,778,315**
Balance at 31 December 2020	**1,979,434**	**1,051,501**	**-**	**21,666,307**	**304,308**	**1,979,434**	**26,676,675**
Balance at 01 January 2019	**989,717**	**142,056**	**162,252**	**17,636,225**	-	**1,484,575**	**20,414,825**
Total comprehensive income for the year	-	-80,358	-	4,092,770	-80,358	-	4,012,412
Total adjusted balance	**-**	**-80,358**	**-**	**4,092,770**	-	**-**	**4,012,412**
Issue of shares	989,717	-	-	-989,717	-80,358	-	-
Transfer to statutory loan loss reserve	-	-	61,560	-61,560	61,560	-	-
Dividends paid	-	-	-	-	-	-1,484,575	-1,484,575
Dividends proposed	-	-	-	-1,979,434	**-**	1,979,434	-
Total changes	**989,717**	**-**	**61,560**	**-3,030,711**	**-18,798**	**494,859**	**2,527,837**
Balance at 31 December 2019	**1,979,434**	**61,698**	**223,812**	**18,698,284**	**285,510**	**1,979,434**	**22,942,662**
Note(s)	26	27	28			37	

Statement of Cash Flows

Figures in Kenyan Shilling ('000)	Note(s)	2020	2019
Cash flows generated from operating activities			
Cash generated from operations	32	24,689,894	21,213,731
Finance costs	10	-39,265	-42,601
Tax paid	12	-1,299,590	-1,325,949
Net cash generated from operating activities		**23,351,039**	**19,845,181**
Cash flows (used in) investing activities			
Purchase of property, plant and equipment	23	-78,801	-335,297
Sale of property, plant and equipment	23	1,049	4,581
Purchase of intangible assets	22	-	-4,060
Purchase of government securities	16	-21,966,139	-16,035,318
Purchase of investments securities	20	160	35,903
Net cash (used in) investing activities		**-22,043,731**	**-16,335,253**
Cash flows from (used in) financing activities			
Payment on lease liabilities	21	-88,298	-85,777
Dividends paid	33	-1,979,434	-1,979,434
Net cash from (used in) financing activities		**-2,067,732**	**-2,065,211**
Total cash and cash equivalents movement for the year		**-760,424**	**1,444,717**
Cash in hand at the beginning of the year	14	371,699	484,186
Balance with Central Bank of Kenya at the beginning of the year	15	7,463,135	5,905,928
Total cash and cash equivalents at end of the year	14 & 15	**7,074,410**	**7,834,831**

The accounting policies on pages 23 to 33 and the notes on pages 35 to 63 form an integral part of the annual report and financial statements.

PR MENTIONS!

A NATION MEDIA PUBLICATION WWW.BDAFRICA.COM TUESDAY, MARCH 16, 2021

BUSINESS DAILY

Kenya's most expensive, cheapest loans revealed

Top 10 cheapest lenders

The cost of borrowing Sh1m secured loan repayable in 12 months

Bank	Loan Cost (Sh)
Bank of Baroda	60,580
KCB	71,807
First Community	71,807
HF	71,807
Jamii Bora	71,807
Credit Bank	71,807
Transnational	79,389
Bank of India	83,807
Habib	83,807
M-Oriental	83,807
Victoria	83,807

Non-interest charges contribute to the huge difference in the cost of loans among lenders.

Source: KBA

BD

"...Bank of Baroda for instance is ranked the cheapest with a cost of credit of Sh. 60,580 that reflects pure interest rates..."

Bank of Baroda (Kenya) Ltd.

ACCOUNTING POLICIES

ACCOUNTING POLICIES

Corporate information

Bank of Baroda (Kenya) Limited is a private limited company incorporated in Kenya under the Kenyan Companies Act, 2015 as a private limited liability company and is domiciled in Kenya. The bank is licensed under the Banking Act (Cap 488) and provide banking, financial and related services.

The bank operates 13 branches within Kenya.

1. Significant accounting policies

The principal accounting policies applied in the preparation of these annual report and financial statements are set out below.

1.1 Basis of preparation

The annual report and financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these annual report and financial statements and the Kenyan Companies Act, 2015 and the Banking Act.

For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented in these annual report and financial statements by the Statement of Financial Position and the profit and loss account by the Statement of Profit or Loss and Other Comprehensive Income.

The annual report and financial statements have been prepared on the historic cost convention as modified by the carrying of available for sale investments at fair value and impaired assets at their recoverable amount, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Kenyan Shillings, which is the bank's functional currency and rounded off to the nearest Thousand Shillings.

These accounting policies are consistent with the previous period, except changes set out in Note 3.

1.2 Significant judgements and sources of estimation uncertainty

The preparation of annual report and financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical judgements in applying accounting policies

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Taxes

Determining income tax liability involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on temporary differences where it is probable that there will be taxable revenue against which these can be offset.

Impairment of loans and advances

The bank's loan impairment provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables.

Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the loan carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the reporting date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

Fair value of financial instruments

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

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

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

Key sources of estimation uncertainty

Impairment of financial assets
The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The bank uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the bank's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, refer to the individual notes addressing financial assets.

Fair value estimation
Several assets and liabilities of the bank are either measured at fair value or disclosure is made of their fair values.

Observable market data is used as inputs to the extent that it is available. Qualified external valuers are consulted for the determination of appropriate valuation techniques and inputs.

Useful lives of property and equipment
Management assess the appropriateness of the useful lives of property and equipment at the end of each reporting period. The useful lives of motor vehicles, furniture and computer equipment are determined based on bank replacement policies for the various assets. Individual assets within these classes, which have a significant carrying amount are assessed separately to consider whether replacement will be necessary outside of normal replacement parameters.

When the estimated useful life of an asset differs from previous estimates, the change is applied prospectively in the determination of the depreciation charge.

Provisions
Provisions are inherently based on assumptions and estimates using the best information available.

1.3 Property, plant and equipment

Property, plant and equipment are tangible assets which the bank holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the bank, and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

Expenditure incurred subsequently for major repairs, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the bank and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the bank. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of property, plant and equipment have been assessed as shown in the table below:

Item	Depreciation method	Rate % and Method of Depreciation
Buildings	Straight line	Over the remaining lease period
Furniture and fittings	Diminishing balance	12.5
Motor vehicles	Diminishing balance	25
IT equipment	Straight line	Over three years
Leasehold improvements	Straight line	Over ten years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.4 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Internally generated brands, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 years

1.5 Financial instruments

Financial instruments held by the bank are classified in accordance with the provisions of IFRS 9 Financial Instruments. Broadly, the classification possibilities, which are adopted by the bank ,as applicable, are as follows:

Financial assets which are debt instruments:

- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows): or
- Fair value through other comprehensive income. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments); or
- Designated at fair value through profit or loss. (This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch).

Financial liabilities:

- Amortised cost.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the bank are presented below:

Debt instruments at fair value through other comprehensive income

Classification

The bank holds certain investments in bonds and debentures which are classified as subsequently measured at fair value through other comprehensive income (note 13).

They have been classified in this manner because the contractual terms of these debt instruments give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the objectives of the bank's business model is achieved by both collecting the contractual cash flows on these instruments and by selling them.

Recognition and measurement

These debt instruments are recognised when the bank becomes a party to the contractual provisions. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at fair value.

Even though they are measured at fair value, the bank determines the amortised cost of each instrument as if they were measured at amortised cost. The difference, at reporting date, between the amortised cost and the fair value of the debt instruments, is recognised in other comprehensive income and accumulated in equity in the reserve for valuation of investments.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Debt instruments denominated in foreign currencies

When a debt instrument measured at fair value through other comprehensive income is denominated in a foreign currency, the amortised cost and the fair value (carrying amount) of the investment is determined in the foreign currency. The amortised cost and fair value is then translated to the Shillings equivalent using the spot rate at the end of each reporting period. Any foreign exchange gains or losses arising on the amortised cost of the instrument are recognised in profit or loss in the foreign exchange trading income. The remaining foreign exchange gains or losses relate to the valuation adjustment and are included in other comprehensive income and are accumulated in equity in the reserve for valuation of investments.

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the financial risk management note (note 3).

Derecognition

Refer to the derecognition section below of the accounting policy for the policies and processes related to derecognition.

On derecognition of a debt instrument at fair value through other comprehensive income, the cumulative gain or loss on that instrument which was previously accumulated in equity in the reserve for valuation of investments is reclassified to profit or loss.

Loans and advances to customers Classification

Loan and advances to customers are classified as financial assets and subsequently measured at amortised cost (note 19).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the bank's business model is to collect the contractual cash flows on loan and advances to customers.

Recognition and measurement

Loan and advances to customers are recognised when the bank becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Loans and advances to customers denominated in foreign currencies

When loan and advances to customers are denominated in a foreign currency, the carrying amount of the receivables are determined in the foreign currency. The carrying amount is then translated to the Shillings equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in Foreign exchange trading income.

Details of foreign currency risk exposure and the management thereof are provided in the financial risk management (note 3).

Impairment

The bank recognises a loss allowance for expected credit losses on loan and advances to customers and prepayments. The amount of expected credit losses is updated at each reporting date.

The bank measures the loss allowance for loan and advances to customers which do not contain a significant financing component at an amount equal to lifetime expected credit losses (lifetime ECL). The loss allowance for all other loan and advances to customers is measured at lifetime ECL when there has been a significant increase in credit risk since initial recognition. If the credit risk on these receivables has not increased significantly since initial recognition, then the loss allowance for those receivables is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12 month ECL to loan and advances to customers which do have a significant financing component, the bank considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a receivable being credit impaired at the reporting date or of an actual default occurring.

Significant increase in credit risk
In assessing whether the credit risk on a receivable or group of receivables has increased significantly since initial recognition, the bank compares the risk of a default occurring as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a receivable is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the bank has reasonable and supportable information that demonstrates otherwise.

By contrast, if a receivable is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition.

The bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

Definition of default
For purposes of internal credit risk management purposes, the bank consider that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Irrespective of the above analysis, the bank considers that default has occurred when a receivable is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of expected credit losses
The bank makes use of a provision matrix as a practical expedient to the determination of expected credit losses on loan and advances to customers. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of loan and advances to customers, through use of a loss allowance account. The impairment loss is included in Impairment losses on loans and advances in profit or loss as a movement in credit loss allowance (note 9).

Write off policy
The bank writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the bank recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Credit risk
Details of credit risk are included in the loan and advances to customers note (note 19) and the financial risk management note (note 3).

Derecognition
Refer to the derecognition section below of the accounting policy for the policies and processes related to derecognition.

Customer deposits

Classification
Customer deposits (note 25) and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement
They are recognised when the bank becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

Customer deposits expose the bank to liquidity risk and possibly to interest rate risk. Refer to note 3 for details of risk exposure and management thereof.

Customer deposits denominated in foreign currencies
When customer deposits are denominated in a foreign currency, the carrying amount of the payables are determined in the foreign currency. The carrying amount is then translated to the Shillings equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses

are recognised in profit or loss in the foreign exchange trading income.

Details of foreign currency risk exposure and the management thereof are provided in the financial risk management note (note 3).

Derecognition
Refer to the derecognition section below of the accounting policy for the policies and processes related to derecognition.

Cash and cash equivalents
Cash and cash equivalents are stated at carrying amount which is deemed to be fair value.

Balances with Central Bank of Kenya
Balances with Central Bank of Kenya are stated at carrying amounts which is deemed to be fair value.

Derecognition

Financial assets
The bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the bank continues to recognise the financial asset.

Financial liabilities
The bank derecognises financial liabilities when, and only when, the bank obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Reclassification

Financial assets
The bank only reclassifies affected financial assets if there is a change in the business model for managing financial assets. If a reclassification is necessary, it is applied prospectively from the reclassification date. Any previously stated gains, losses or interest are not restated.

The reclassification date is the beginning of the first reporting period following the change in business model which necessitates a reclassification.

Financial liabilities
Financial liabilities are not reclassified.

1.6 Tax

Current tax assets and liabilities
Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities
A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses
Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.7 Leases

The bank assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is “identified”, which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the bank has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

Bank as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the bank is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the bank recognises the lease payments as an operating expense (note 20) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated to each lease component on the basis of the relative stand-alone prices of the lease components and the aggregate stand-alone price of the non-lease components (where non-lease components exist).

However as an exception to the preceding paragraph, the bank has elected not to separate the non-lease components for leases of land and buildings.

Details of leasing arrangements where the bank is a lessee are presented in note 21 Leases (bank as lessee).

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the bank uses its incremental borrowing rate.

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

- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the bank under residual value guarantees;
- the exercise price of purchase options, if the bank is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the bank is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note 21).

The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs (note 10).

The bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the bank will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

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

Right-of-use assets

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

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the bank incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are presented in the following table:

Item	Average useful life and depreciation method
Leased premises	Over the remaining lease preiod

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

1.8 Identification and measurement of impairment of financial assets

At each reporting date the bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the bank on terms that the bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment, the bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

1.9 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instrument.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Retirement benefit costs
The bank operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The scheme is administered by an insurance company. The bank has no further payment obligations once the contributions have been paid. The company's obligations to the schemes are recognised in the Statement of Profit or Loss and Other Comprehensive income.

The bank and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are etermined by local stature and the bank's contributions are charged to the Statement of Profit or Loss and Other Comprehensive Income in the year they fall due.

Employee entitlements
Employee entitlements to gratuity and long term service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the statement of financial position date.

The estimated monetary liability for employee's accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

1.11 Provisions and contingencies

Provisions are recognised when:
- the bank has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

1.12 Revenue recognition

Revenue is derived substantially from banking business and related activities and comprises net interest income and non- interest income. Income is recognised on an accrual basis in the period in which it is earned.

(i) Interest and similar income and expense
Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at fair value through profit and loss. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit- impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Interest income and expense are recognised in profit or loss on the accrual basis. Interest income and expense presented in the statement of profit or loss and other comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

(ii) Fees and commission income
Fees and commission income is recognised on an accrual basis when the service is provided. This income comprises appraisal and facility fees charged on advances, commissions charged on use of channels and ledger fees levied on current and savings accounts.

(iii) Foreign exchange trading income
Foreign exchange trading income comprises gains less losses related to trading assets and liabilities and includes all realized and unrealized exchange gains or losses.

1.13 Translation of foreign currencies

Foreign currency transactions
A foreign currency transaction is recorded, on initial recognition in Shillings, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual report and financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Shillings by applying to the foreign currency amount the exchange rate between the Shillings and the foreign currency at the date of the cash flow.

1.14 Impairment for non-financial assets

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

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

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

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.15 Dividends

Proposed dividends are disclosed as a separate component of equity until declared. Dividends are recognised as a liabilities in the period in which they are approved by the bank's shareholders.

1.16 Contingent liabilities

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

1.17 Statutory loan loss reserve

These are provisions that have been appropriated from Retained Earnings. This applies if provisions computed under the Risk Classification of Assets and Provisioning Guidelines is in excess of impairment losses computed under the International Financial Reporting Framework.

1.18 Interest expense

Interest for all interest-bearing financial liabilities are recognised within interest expense in profit or loss using the effective interest method.

Interest expense includes expense incurred on customer deposits, placements and overnight borrowings with other banking institutions.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
Temporary exceptions have been created by the IASB concerning the application of specific hedge accounting requirements as a result of the interest rate benchmark reform. These exceptions apply only to those hedging relationships which are directly affected by the reform, being those where the reform gives rise to uncertainties about:

(a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or

(b) the timing or the amount of interest rate benchmark -based cash flows of the hedged item or of the hedging instrument.

The exceptions are as follows:

(a) When determining whether a forecast transaction is highly probable, it shall be assumed that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

(b) When assessing the economic relationship between the hedged item and the hedging instrument, entities shall, in their prospective assessments, assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the reform.

(c) Entities applying IAS 39 for hedge accounting are not required to undertake the IAS 39 retrospective assessment for hedging relationships directly affected by the reform.

(d) For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at inception of such hedging relationships.

Entities shall cease applying the exceptions when the uncertainty arising from the reform is no longer present or when the hedging relationship is discontinued.

The effective date of the amendment is for years beginning on or after 01 January 2020.

The bank has adopted the amendment for the first time in the 2020 annual report and financial statements. The impact of the amendment is not material.

Definition of a business - Amendments to IFRS 3
The amendment:
- confirmed that a business must include inputs and a processes, and clarified that the process must be substantive and that the inputs and process must together significantly contribute to creating outputs.
- narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
- added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The effective date of the amendment is for years beginning on or after 01 January 2020.

The bank has adopted the amendment for the first time in the 2020 annual report and financial statements.

The impact of the amendment is not material.

Presentation of Financial Statements: Disclosure initiative
The amendment clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The effective date of the amendment is for years beginning on or after 01 January 2020.

The bank has adopted the amendment for the first time in the 2020 annual report and financial statements. The impact of the amendment is not material.

Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative
The amendment clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The effective date of the amendment is for years beginning on or after 01 January 2020.

The bank has adopted the amendment for the first time in the 2020 annual report and financial statements.

The impact of the amendment is not material.

2.2 Standards and interpretations not yet effective

The bank has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the bank's accounting periods beginning on or after 01 January 2021 or later periods:

Classification of Liabilities as Current or Non-Current - Amendment to IAS 1

The amendment changes the requirements to classify a liability as current or non-current. If an entity has the right at the end of the reporting period, to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current.

If this right is subject to conditions imposed on the entity, then the right only exists, if, at the end of the reporting period, the entity has complied with those conditions.

In addition, the classification is not affected by the likelihood that the entity will exercise its right to defer settlement. Therefore, if the right exists, the liability is classified as non-current even if management intends or expects to settle the liability within twelve months of the reporting period. Additional disclosures would be required in such circumstances.

The effective date of the amendment is for years beginning on or after 01 January 2023.

The bank expects to adopt the amendment for the first time in the 2023 annual report and financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 1

A subsidiary that uses the cumulative translation differences exemption, may elect in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary.

The effective date of the bank is for years beginning on or after 01 January 2022.

The bank expects to adopt the amendment for the first time in the 2022 annual report and financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements

Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 9

The amendment concerns fees in the '10 per cent' test for derecognition of financial liabilities. Accordingly, in determining the relevant fees, only fees paid or received between the borrower and the lender are to be included.

The effective date of the bank is for years beginning on or after 01 January 2022.

The bank expects to adopt the amendment for the first time in the 2022 annual report and financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Property, Plant and Equipment: Proceeds before Intended Use: Amendments to IAS 16

The amendment relates to examples of items which are included in the cost of an item of property, plant and equipment. Prior to the amendment, the costs of testing whether the asset is functioning properly were included in the cost of the asset after deducting the net proceeds of selling any items which were produced during the test phase. The amendment now requires that any such proceeds and the cost of those items must be included in profit or loss in accordance with the related standards. Disclosure of such amounts in now specifically required.

The effective date of the bank is for years beginning on or after 01 January 2022.

The bank expects to adopt the amendment for the first time in the 2022 annual report and financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 7

The amendment sets out additional disclosure requirements related to interest rate benchmark reform. The effective date of the bank is for years beginning on or after 01 January 2021.

The bank expects to adopt the amendment for the first time in the 2021 annual report and financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9

When there is a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform then the entity is required to apply paragraph B5.4.5 as a practical expedient. This expedient is only available for such changes in basis of determining contractual cash flows.

Additional temporary exemptions from applying specific hedge accounting requirements as well as additional rules for accounting for qualifying hedging relationships and the designation of risk components have been added to hedge relationships specifically impacted by interest rate benchmark reform.

The effective date of the bank is for years beginning on or after 01 January 2021.

The bank expects to adopt the amendment for the first time in the 2021 annual report and financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 16

If there is a lease modification as a result of the interest rate benchmark reform, then as a practical expedient the lessee is required to apply paragraph 42 of IFRS 16 to account for the changes by remeasuring the lease liability to reflect the revised lease payment. The amendment only applies to modifications as a result of the interest rate benchmark reform.

The effective date of the bank is for years beginning on or after 01 January 2021.

The bank expects to adopt the amendment for the first time in the 2021 annual report and financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Interest Rate Benchmark Reform - Phase 2: Amendments to IAS 39

Temporary exemptions from applying specific hedge accounting requirements as well as additional rules for accounting for qualifying hedging relationships and the designation of financial items as hedged items have been added to hedge relationships specifically impacted by interest rate benchmark reform.

The effective date of the bank is for years beginning on or after 01 January 2021.

The bank expects to adopt the amendment for the first time in the 2021 annual report and financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

COVID-19 - Related Rent Concessions - Amendment to IFRS 16

The COVID-19 pandemic has resulted in an amendment to IFRS 16 Leases. Lessees may elect not to assess whether a rent concession that meets the conditions in paragraph 46B is a lease modification. If this election is applied, then any change in lease payments must be accounted for in the same way as a change would be accounted for it were not a lease modification. This practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payment affects only payments originally due on or before 30 June 2021 and

- there is no substantive change to other terms and conditions of the lease.

The effective date of the amendment is for years beginning on or after 01 June 2020.

The bank expects to adopt the amendment for the first time in the 2021 annual report and financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

3. Financial instruments and risk management
Financial risk management

Overview
The bank's activities exposes it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the bank's financial performance

The bank's risk management policies are designed to identify and analyse the risks faced by the bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits by means of reliable and upto date management in the system. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the bank's activities.

Risk management function is carried out by the bank's risk management department under policies approved by the Board of Directors. The bank's risk management department identifies, measures, monitors and controls financial risks in close coordination with various other departmental heads. The bank has Board approved policies covering specific areas, such as credit risk, market risk, liquidity risk and operational risk.

The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

Capital management
The bank's objectives when managing capital, which is a broader concept than the equity on the face of the statement of financial position are:
- To comply with the capital requirements set by the regulator, Central Bank of Kenya.
- To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders
- To maintain a strong capital base to support the development of its business.

The bank monitors the adequacy of its capital using ratios established by Central Bank of Kenya. These ratios measure capital adequacy by comparing the bank's core capital with total risk-weighted assets plus risk weighed off-balance sheet items, total deposit liabilities and total risk-weighted off balance sheet items.

Credit risk weighted assets
Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weightage (0%, 20%, 50% and 100%) are applied e.g. cash in hand (domestic and foreign), balances held with Central Bank of Kenya including securities issued by the Government of Kenya have a zero risk weighting, which means that no capital is required to support the holding of these assets. Property, plant and equipment carries a 100% risk weighting. Based on these guidelines it means that they must be supported by capital equal to 100% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet credit related commitments such as guarantees and acceptances, performance bonds, documentary credit e.t.c. are taken into account by applying different categories of credit risk conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets. Core capital (Tier 1) consists of paid-up share capital, retained profits less non-dealing investments. Supplementary capital (Tier 2) includes statutory loan loss provisions and non-dealing investments.

Market risk weighted assets
This is the risk of loss in on and off balance sheet position arising from movement in market prices. These risks pertain to inherent risk related instruments in the trading book, commodities risk throughout the bank, equities risk and foreign exchange risk in the trading and banking books of the bank. Different risk weights are applied as per the Prudential Regulation.

Operational risk weighted assets
This is the risk of loss resulting from inadequate or failed internal process, people or from external events. The operational risk is calculated using the Basic Indicator Approach. Under this approach, the capital charge for operational risk is a fixed percentage of average positive annual gross income of the institution over the past three years. Annual gross income is the sum of net interest income and net non interest income.

The table below summarizes the composition of the regulatory capital. The figures below are in Ksh ('000).

	Balance sheet nominal amount		Risk weighted amount	
	2020	**2019**	**2020**	**2019**
Cash in hand	314,674	371,699	-	-
Balances with Central Bank of Kenya	6,759,736	7,463,135	-	-
Government securities	99,901,571	76,743,619	-	-
Placements with other banks	9,876,362	9,955,536	1,975,272	1,991,107
Other assets	491,097	627,920	491,097	627,915
Loans and advances to customers	47,635,245	46,941,977	41,714,078	40,821,996
Investment securities	19,560	19,720	19,560	19,720
Right-of-use assets	427,757	303,704	427,757	303,705
Intangible assets	2,994	5,002	2,994	5,002
Property and equipment	797,928	795,106	797,928	795,106
Deferred tax	6,281	83,917	6,281	83,917
Current tax receivable	79,325	-	79,325	-
	166,312,530	143,311,335	45,514,292	44,648,468
Off balance sheet position	7,568,424	7,020,416	2,351,049	2,324,767
Less: Market Risk qualifying Assets included in above	-19,560	-19,720	-19,560	-19,720
Adjusted credit risk weighted assets	**173,861,394**	**150,312,031**	**47,845,781**	**46,953,515**
Market risk				
Total market risk weighted assets equipments	**25,753,937**	**11,123,615**	**25,753,937**	11,123,615
Operational risk equivalent assets	13,242,102	11,750,778	13,242,102	11,750,778
Total market risk capital charge	**38,996,039**	**22,874,393**	**38,996,039**	**22,874,393**
Total market risk weighted assets	**212,857,433**	**173,186,424**	**86,841,821**	**69,827,908**

Figures below are in Ksh ('000).	**2020**	**2019**
Core capital (Tier 1)		
Paid-up ordinary share capital/Assigned Capital	1,979,434	1,979,434
Retained earnings/Accumulated losses	22,154,151	18,626,080
Net After tax profits for the current year	2,543,090	2,113,336
Less: Deferred tax asset	-6,281	-83,917
	26,670,394	**22,634,933**
Supplementary capital (Tier 2)		
Statutory loan loss reserve	-	223,812
Total Capital	26,670,394	22,858,745
Total deposit liabilities	**135,000,214**	**117,173,436**

Risk weighted amounts for loans and advances to customers are stated net of impairment losses. These balances have also been offset against fixed deposits and short term deposits placed by customers as securities. There is no borrower with either funded or non-funded facilities, exceeding twenty five percent of core capital.

	Actual Ratios		Minimum Requirement	
	2020	2019	2020	2019
Core capital to total risk weighted assets	30.71%	32.42%	10.50%	10.50%
Total capital to total risk weighted assets	30.71%	32.74%	14.50%	14.50%
Core capital to deposit liabilities	19.76%	19.32%	8.00%	8.00%

Credit risk

The bank takes on exposure to credit risk, which is the risk that a customer will cause a financial loss for the bank by failing to fulfil a contractual obligation. Credit risk is the most important risk for the bank's business. Management therefore carefully manages its exposure to credit risk. Credit risk mainly arises from customer loans and advances, credit cards, investing activities and loan commitments (off balance sheet financial instruments).

The credit risk management and control are centralised in credit and treasury departments of the bank.

In measuring credit risk of loans and advances to customers, the bank reflects on various components. These include:

- the probability of default by the borrower/client on their contractual obligations;
- current exposures on the borrower/client and the likely future development, from which the bank derives the exposure at default; and
- the likely recovery ratio on the defaulted obligations.

These credit risk measurements, which reflect expected loss, are embedded in the bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IFRS 9 and the Banking Act which are based on losses that have been incurred at the date os the statement of financial position rather than expected loss.

The bank assesses the probability of default of individual borrower/client using internal rating methods tailored to the various categories of the borrower/client. These have been developed and combine statistical analysis with the credit department's judgement and are validated, where appropriate, by comparison with externally available data.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Corrective action is taken where necessary.

- **Investment**

For investments, internal ratings taking into account the requirements of the Banking Act are used by the bank for managing the credit risk exposures. The investments in those securities are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirment at the same time.

- Risk Limit Control and Mitigation Policies

The bank manages, limits and controls concentrations of credit risk wherever they are identified. The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved as and when required by the credit committee.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by charging these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below:

- Collateral

The bank employs a range of policies and practices to mitigate credit risk. The most common one is to obtain collateral for loans and advances to customers. The types of collateral obtained include:

- Mortgages over properties;
- Charges over business assets such as land and buildings, inventory and receivables;
- Charges over financial instruments such as investments;
- Deposits placed under lien.

- Credit-related committments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. 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 advance or 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. 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.

- Impairment and provisioning policies

The bank's internal and external systems focus more on credit quality mapping from the inception of the lending of the loan or advance. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incured at the statement of financial position date based on objective evidence of impairment.

The impairment provision shown in the statement of financial position at the year-end is derived after taking various factors into consideration as described in the accounting policy. The bank's management uses basis under IFRS 9 and the Prudential Guidelines to determine the amount of impairment.

Exposure to credit risk

The management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the bank resulting from both its loan and advances portfolio and other financial assets based on the following:

- The maximum exposure to credit risk arises from investments in government securities which form 60.07% (2019: 53.55%) of total assets; 30.30% (2019: 32.76%) represents loans and advances to customers.
- Government securities are considered stable investments as the risk is considered negligible.
- Share of Normal and Watch Accounts 87.60% (2019: 91.76%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system (Normal and Watch).
- The % of Normal and Watch accounts is 14.81% (2019: 15.64%) of the loans and advances portfolio are considered to be past due but not impaired.
- Loans and advances portfolio share of 12.4% (2019: 8.24%) are considered to be past due and impaired.
- Most of its loans and advances to customers are performing as per the respective covenants. Non-performing loans and advances have been provided for. The loans and advances are also secured.
- Cash in hand, balances with Central Bank of Kenya and placements with other banking institutions are held with sound financial institutions.
- Management considers the historical information available to assess the credit risk on investment securities.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are overdrawn.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the iquidity of the bank and its exposure to changes in interest and exchange rates.

The bank does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainity. The management has set limits on the minimum portion of maturing funds available to meet such withdrawals and on the level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The management reviews the maturity profile on a weekly basis and ensures that sifficient liquidity is maintained to meet maturing deposits which substantially are generally rolled over into new deposits.The bank fully complies with the Central Bank of Kenya's minimum cash reserve ratio (5.25%) and liquidity ratio (20%) requirements, with the average liquidity maintained at 83.2% (2019: 78.4%) during the year.

The table below analyses the bank's financial assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

At December 31, 2020

Assets	Up to 3 months	3 - 6 months	6 - 12 months	1 - 3 years	Up to 3 months	Total
Cash in hand	314,674	-	-	-	-	314,674
Balances with Central Bank of Kenya	584,811	-	-	-	6,174,925	6,759,736
Government securities	3,447,208	3,372,823	3,016,591	6,023,760	84,041,189	99,901,571
Placements with other banks	9,876,362	-	-	-	-	9,876,362
Other assets	155,287	119,109	-	96,226	120,475	491,097
Loans and advances to customers	25,049,328	1,530,853	2,405,017	5,388,340	13,261,707	47,635,245
Right-of-use asset	427,757	-	-	-	-	427,757
Investment securities	-	-	-	-	19,560	19,560
Intangible assets	-	-	599	599	1,796	2,994
Property and equipment	-	-	152,408	-	645,520	797,928
Deferred tax	-	-	-	-	6,281	6,281
Current tax receivable	-	-	-	-	79,325	79,325
Total assets	**39,855,427**	**5,022,785**	**5,574,615**	**11,508,925**	**104,350,778**	**166,312,530**
Liabilities and shareholders' equity						
Customer deposits	66,187,517	27,574,588	39,022,454	2,107,154	108,501	135,000,214
Placements from other banks	3,405,580	-	-	-	-	3,405,580
Lease liabilities	-	-	-	-	478,789	478,789
Shareholders' equity	1,979,434	1,051,501	4,060,775	-	19,584,965	26,676,675
Other liabilities	304,108	356,442	-	90,722	-	751,272
Total liabilities and equity	71,876,639	28,982,531	43,083,229	2,197,876	20,172,255	166,312,530
Net liquidity gap as at 31/12/2020	**-32,021,212**	**-23,959,746**	**-37,508,614**	**9,311,049**	**84,178,523**	**-**

At December 31, 2019

Total assets	38,373,814	8,429,579	6,745,189	16,224,122	73,538,628	143,311,335
Total liabilities and equity	71,910,300	23,403,613	29,864,599	1,167,939	16,964,881	143,311,335
Net liquidity gap as at 31/12/2019	**-33,536,486**	**-14,974,034**	**-23,119,410**	**15,056,183**	**56,573,747**	**-**

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is considered to be of a stable and long term nature.

Interest rate risk

The bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the bank's business strategies. The bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes. The table summarises the exposure to interest rate risk at the balance sheet date. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not have any derivative financial instruments. The bank does not bear an interest rate risk on off balance sheet items.

At December 31, 2020	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Non Interest Bearing	Non Interest Bearing
Assets							
Cash in hand	314,674	-	-	-	-	-	314,674
Balances with Central Bank of Kenya	584,811	-	-	-	-	6,174,925	6,759,736
Government securities	3,447,208	3,372,823	3,016,590	6,023,760	84,041,189	-	99,901,571
Placements with other banks	9,876,362	-	-	-	-	-	9,876,362
Other assets	-	-	-	-	-	491,097	491,097
Loans and advances to customers	25,044,141	1,530,853	2,405,017	5,388,340	9,751,534	3,515,360	47,635,245
Right-of-use asset	-	-	-	-	-	427,757	427,757
Investment securities	-	-	-	-	-	19,560	19,560
Intangible assets	-	-	-	-	-	2,994	2,994
Property and equipment	-	-	-	-	-	797,928	797,928
Deferred tax	-	-	-	-	-	6,281	6,281
Current tax	-	-	-	-	-	79,325	79,325
Total assets	39,267,196	4,903,676	5,421,608	11,412,100	93,792,723	11,515,227	166,312,530
Liabilities and shareholders' equity							
Customer deposits	55,820,126	27,574,588	39,022,454	2,107,154	108,502	10,367,390	135,000,214
Deposits due to other banking institutions	3,405,580	-	-	-	-	-	3,405,580
Lease liabilities	-	-	-	-	478,789	-	478,789
Other liabilities	-	356,442	-	95,075	-	299,755	751,272
Capital & reserves	-	-	-	-	-	26,676,675	26,676,675
Total liabilities and equity	59,225,706	27,931,030	39,022,454	2,202,229	587,291	37,343,820	166,312,530
Interest sensitivity gap as at 31/12/2020	-19,958,510	-23,027,356	-33,600,848	9,209,871	93,205,432	-25,828,593	-

At December 31, 2019						12,024,311	
Total assets	37,443,320	7,835,258	6,702,559	16,085,972	63,219,915	33,528,124	143,311,335
Total liabilities and equity	59,327,407	23,359,915	25,771,829	944,127	379,933	-21,503,813	143,311,335
Interest sensitivity gap as at 31/12/2019	-21,884,087	-15,524,657	-19,069,270	15,141,845	62,839,982		-

The tables below summarise the effective interest rates calculated on a weighted average basis, by major currencies for monetary financial assets and liabilities:

2020	Ksh	USD	GBP	Euro
Government securities	12.16%	-%	-%	-%
Placements with other banks	6.92%	-%	-%	-%
Loans and advances to customers	12.16%	7.85%	5.32%	6.38%
Customer deposits	7.38%	0.81%	3.21%	-%
Placements from other banks	1.80%	-%	-%	-%
2019	**Ksh**	**USD**	**GBP**	**Euro**
Government securities	12.39%	-%	-%	-%
Placements with other banks	6.86%	-%	-%	-%
Loans and advances to customers	13.19%	9.34%	5.97%	6.74%
Customer deposits	7.56%	0.92%	2.90%	-%
Placements from other banks	4.23%	-%	-%	-%

Interest rate risk sensitivity

At 31 December 2020, if the weighted average interest had been 10% higher, with all other variables held constant, post-tax profit would have been as follows:

Figures in Kenyan Shilling ('000)	2020	2019
Effect on interest income - increase	1,081,633	964,967
Effect in interest expense - (increase)	(547,880)	(493,463)
Net effect on profit after tax - increase	533,753	471,504

Currency risk

The bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. It conducts trade with correspondant banks and takes deposits and lends in other currencies. The bank's currency position and exposure are managed within the exposure guideline of 10% of the core capital as stipulated by the Central Bank of Kenya. The position is reviewed on a daily basis by management.

Figures in Ksh '000

At 31 December 2020	USD	GBP	Euro	Others	Total
Assets					
Cash and Bank balances	49,883	4,031	4,726	-	58,640
Balances with Central Bank of Kenya	419,819	112,536	50,750	1,706	584,811
Placements with other banks	6,560,728	3,172,552	85,993	26,283	9,845,556
Gross loans and advances to customers	9,087,734	571,893	169,724	-	9,829,351
Total assets	16,118,164	3,861,012	311,193	27,989	20,318,358
Liabilities and shareholders' equity					
Customer deposits	12,992,249	3,910,099	110,251	-	17,018,599
Placements from other banks	11,140	45	200,843	3,193,552	3,405,580
Total liabilities and equity	13,003,389	3,910,144	311,094	3,193,552	20,418,179
Net statement of financial position gap	3,114,775	-49,132	99	3,165,563	-99,821
Off balance sheet net notional position	71,292	-	-	30,489	101,781
At December 31, 2019					
Total assets	4,805,741	5,653,684	101,339	227,584	10,788,348
Total liabilities and equity	12,591,726	6,072,296	255,978	180,399	19,100,399
Net statement of financial position gap	-7,785,985	-418,612	-154,639	47,185	-8,312,051

Market risk

Market risk is the risk that changes in the market prices, which includes currency exchange rate and interest rates, will affect the fair value or future cash flows of financial instruments. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising on the return on risk. Overall management for management of market risk rests with the Assets & Liability Committee (ALCO).

The treasury department is responsible for the development of detailed risk management policies, subject to review and approval by ALCO, and for the day to day implementation of the policies.

Market risks arise mainly from trading and non-trading activities.

Trading portfolios include those positions arising from market-making transactions where the bank acts as a principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the bank's investments.

The major measurement techniques used to measure and control market risk are outlined below:

- ALCO review

ALCO meets on a monthly basis to review the following:
- A summary of the bank's aggregate exposure on market risk
- A summary of the bank's maturity/repricing gaps
- A report indicating that the bank is in compliance with the board's set exposure limit
- A comparison of past forecast or risk estimates with actual results to identify any shortcomings.

- Review by the treasury department

The treasury department monitors foreign exchange risk in close collaboration with the management. Regular reports are prepared by the treasury department of the bank and discussed with the management. Some of these reports include:
- Net overnight positions by currency
- Maturity distribution by currency of the assets and liabilities for both on and off balance sheet items
- Outstanding contracts (if any) by settlement date and currency
- Total values of contracts, spots and futures
- Aggregate dealing limits
- Exception reports for example limits or line excesses.

Operational risk

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

The bank endeavors to manage the operational risk by creating a balance between avoidance of cost of financial losses and damage to the bank's reputation within overall cost effectiveness and to avoid control procedures that restrict creativity and initiative. The key responsibility for development and implementation of policies and programs to implement the bank's operational risk management is with the senior management of the bank.

The above management of operational risk is to be achieved by development of overall standards for the bank to manage the risk in the following areas:
- Segregation of duties including independent authorisation of transactions
- Monitoring and reconciliation of transactions
- Compliance of regulatory and legal requirement
- Documentation of control and procedure
- Assessment of the operational risk on a periodic basis to address the deficiencies observed, if any
- Reporting of operational losses and initiation of remedial action
- Development of contingency plan
- Giving training to staff to improve their professional competency
- Ethical and business standards
- Obtaining insurance wherever feasible, as a risk mitigation measure.

Risk measurement and control

Interest rate, currency, credit, liquidity and other risks are actively managed by management to ensure compliance with the bank's risk limits. The bank's risk limits are assessed regularly to ensure their appropriateness given its objectives and strategies and current market conditions. A variety of techniques are used by the bank in measuring the risks inherent in its trading and non-trading positions.

Foreign exchange risk sensitivity

The table below summarises the effect on post-tax profit had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant. If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

2020	**USD**	**GBP**	**EURO**	**Others**	**Total**
Effect on profit - Increase / (decrease)	39,778	-28,760	-7,477	1,932	5,473
2019	**USD**	**GBP**	**EURO**	**Other**	**Total**
Effect on profit - Increase / (decrease)	36,162	-26,145	-6,770	1,758	5,005

Price risk sensitivity

The Bank is exposed to price risk on quoted shares, corporate bonds and government securities because of investments that are classified on the statement of financial position as 'Available-for-sale'.

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

	Impact on other comprehensive Income	
	2020	**2019**
Effect of increase	312,000	344,000

Figures in Kenyan Shilling ('000)	2020	2019
4. Interest income		
Revenue other than from contracts with customers	4,781,551	5,144,402
Loans and advances to customers	10,511,709	8,386,685
Government securities	-	2,572
Corporate bonds	158,642	251,584
Deposits and balances due from banking institutions	-	-
Other income	15,451,902	13,785,243
Disaggregation of revenue from contracts with customers		
The bank disaggregates revenue from customers as follows:		
Timing of revenue recognition - At a point in time		
Recoveries of advances previously impaired	155,900	106,909
Excess provisions reversal as per IFRS 9	-	414,638
Dividend income	382	766
Profit on disposal of property, plant and equipment	127	-
Securities trading income	10,273	147,630
Miscellaneous income	197	251
Rental income	114	2,888
Total revenue from contracts with customers	166,993	673,082
Disaggregation of revenue from contracts with customers		
The bank disaggregates revenue from customers as follows:		
Timing of revenue recognition - At a point in time		
Income earned on forex transactions	311,968	226,781
Over time		
Corporate bonds	-	2,572
Loans and advances to customers	4,781,551	5,144,402
Government securities	10,511,709	8,386,685
Placements with other banks	158,642	24,803
	15,451,902	13,558,462
5. Interest expense		
Time deposits	7,668,144	6,867,529
Other Customer Deposits	148,475	142,042
Deposits and balances due to banking institutions	10,240	39,905
	7,826,859	7,049,476
6. Other income		
Profit and (loss) on sale of assets	127	-
Dividend income	382	766
Recoveries of advances previously provided	155,900	521,547
Securities trading income	10,273	147,630
Rental income	114	2,874
Miscellaneous income	197	265
	166,993	673,082
7. Operating Expenses		
The following are included within operating expenses		
Staff costs (Note 8)	741,159	722,179
Directors' emoluments as executives	9,132	12,812
Depreciation and amortisation	152,408	150,057
Auditors remuneration - current year fees	9,915	12,169
Contribution to Deposit Protection Fund	164,690	135,755
Operating lease rent	19,996	20,958

Figures in Kenyan Shilling ('000)	2020	2019
Loss on disposal of property	-	2,569
Administration expenses (Note 9)	289,901	336,701
Establishment expenses (Note 10)	86,304	74,333
	1,473,505	**1,467,533**

8. Staff costs

Indirect employee costs		
Salaries and wages	511,667	491,535
Other staff costs	148,772	150,645
National Social Security Fund (NSSF)	35,672	33,406
Staff medical	32,469	29,011
Staff leave	12,650	15,090
Fringe benefits	55	476
Staff training	648	2,016
	741,159	**722,179**
Average number of persons employed during the year		
Management	131	130
Supervisory	1	1
Unionisable	109	92
	241	**223**

9. Impairment losses on loans and advances

Provisions for credit losses	800,710	773,408

10. Finance costs

Interest on lease liabilities	39,265	42,601

11. Taxation

Major components of the tax expense		
Current		
Local income tax - current period	1,190,362	1,385,128
Deferred		
Local deferred tax - current period	77,637	-11,696
	1,267,999	**1,373,432**
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense.	5,790,524	5,466,200
Accounting profit	1,447,631	1,639,861
Tax at the applicable tax rate of 25% (2019: 30%)		
Tax effect of adjustments on taxable income	-	139,525
Expenses not deductible for tax purposes	-179,632	-405,954
Income not subject to tax	**1,267,999**	**1,373,432**

12. Tax paid

Balance at beginning of the year	-29,903	29,276
Current tax for the year recognised in profit or loss	-1,190,362	-1,385,128
Balance at end of the year	-79,325	29,903
	-1,299,590	**-1,325,949**

13. Other comprehensive income

Components of other comprehensive income - 2020	Gross	Tax	Net
Items that may be reclassified to profit (loss)			
Fair value through other comprehensive income financial assets adjustments			
Government securities	1,149,847	-	1,149,847
Quoted shares	-160,044	-	-160,044
	989,803	-	989,803

Components of other comprehensive income - 2019	Gross	Tax	Net
Fair value through other comprehensive income financial assets adjustments			
Government securities	-80,797	-	-80,797
Corporate bonds	-624	-	-624
Quoted shares	1,063	-	1,063
	-80,358	-	-80,358

Figures in Kenyan Shilling ('000)	2020	2019

14. Cash in hand

Cash and cash equivalents consist of:		
Cash on hand	314,674	371,699

Exposure to currency risk

Refer to note 3 Financial risk management for details of currency risk management for cash in hand.

15. Balance with Central Bank of Kenya

Balances with Central Bank of Kenya	6,759,736	7,463,135

The cash reserve ratio balance is non interest bearing and is based on the value of customer deposits as adjusted in accordance with Central Bank of Kenya requirements. As at December 31, 2020 the cash reserve ratio requirement was 4.25% (2019: 5.25%) of all customer deposits. These funds are not available for the bank's day to day operations.

During the year, the Central Bank of Kenya temporarily lowered the Cash Reserve Ratio (CRR) to 4.25 percent to provide additional liquidity of Ksh 35 billion to commercial banks to directly support borrowers from the distress caused by the COVID- 19 pandemic.

- Cash reserve ratio	6,174,925	7,259,030
- Other	584,811	204,105
	6,759,736	7,463,135

Exposure to credit risk

Balances with Central Bank of Kenya inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if counterparties fail to make payments as they fall due.

Exposure to currency risk

Refer to note 3 Financial risk management for details of currency risk management for Balances with Central Bank of Kenya.

Figures in Kenyan Shilling ('000)	2020	2019

16. Government securities

At amortised cost		
Treasury bonds	51,666,538	27,388,743
Fair value through other comprehensive income		
Treasury bonds	42,478,443	46,438,018
Treasury bills	5,756,590	2,916,858
	48,235,033	49,354,876
Total government securities	99,901,571	76,743,619
Current assets		
Fair value through other comprehensive income	51,666,538	28,451,626
Amortised cost	48,235,033	48,291,993
	99,901,571	76,743,619
Government securities comprise of:		
Maturing within 91 days	1,047,952	3,031,958
Maturing within 91 days and within an year	3,032,079	4,421,077
Maturing after an year	10,200,445	15,269,474
Maturing after three years	85,621,095	54,021,110
	99,901,571	76,743,619

The fair values of the government securities classified as 'Fair value through other comprehensive income' financial assets are categorised under Level 1 based on the information set out in the accounting policy.

There were no gains or losses realised on the disposal of amortised cost financial assets in 2020 and 2019, as all the financial assets were disposed of at their redemption date.

Exposure to credit risk
Government securities inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if counterparties fail to make payments as they fall due.

Exposure to currency risk
Refer to note 3 Financial risk management for details of currency risk management for Government securities.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2020 and 2019, as all the financial assets were disposed of at their redemption date.

17. Placement with other banks

Placements with banking institutions in Kenya	139,978	1,389
Placements with banking institutions abroad	6,535,125	9,766,381
Placements with parent bank	3,201,259	187,768
	9,876,362	9,955,538

Exposure to credit risk
Placements with other banks inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if counterparties fail to make payments as they fall due.

Exposure to currency risk
Refer to note 3 Financial risk management for details of currency risk management for group loans receivable.

Figures in Kenyan Shilling ('000)	2020	2019

18. Other assets

Items in transit	222,409	228,976
Prepayments and other receivables	268,685	398,944
	491,094	**627,920**

In the opinion of the management, the bank's exposure to credit risk from other assets is low as these are expected to be collected within no more than 12 months after the date of this report.

19. Loan and advances to customers

Financial instruments:		
Overdrafts	23,026,150	22,317,301
Commercial loans	27,984,803	27,607,457
Bills	140,238	127,133
Gross loans and advances	**51,151,191**	**50,051,891**
Provision for impaired loans and advances	-3,177,776	-2,871,382
Interest in suspense	-337,585	-238,534
Net loans and advances	**47,635,830**	**46,941,977**
Provision for impaired loans and advances		
Non-current assets	2,871,383	2,367,993
Additional provision during the year	503,666	773,407
Provision utilised during the year for write off	-41,653	-
Recoveries	-155,620	-270,018
At year end	**3,177,776**	**2,871,382**

Loans and advances have been written down to their recoverable amount. Non performing loans and advances on which provisions for impairment have been recognised amount to Ksh 6.342 billion (2019: Ksh 4.126 billion). These are included in the statement of financial position net of provisions at Ksh 2.827 billion (2019: Ksh 1.016 billion). In the opinion of the Directors, sufficient securities are held to cover the exposure on such loans and advances. Interest income amounting to Ksh 337.59 million (2019: Ksh 238.53 million) on impaired loans and advances has not been recognised as the management feels no economic benefit of such interest will flow to the bank.

Categorisation of provision for impaired loans and advances

Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments:

At amortised cost	47,635,830	46,941,980

Concentration

Economic sector risk concentrations within the loans and advances portfolio are as follows:

	2020 Ksh	2020 %	2019 Ksh	2019 %
Agriculture	1,683,646	3.29%	1,335,070	2.67%
Manufacturing	9,934,222	19.42%	11,353,433	22.68%
Building and construction	4,033,900	7.89%	4,945,552	9.88%
Mining and quarrying	169,355	0.33%	309,765	0.62%
Energy and water	153,640	0.30%	175,132	0.35%
Trade, tourism, restaurants and hotels	18,066,915	35.32%	19,319,743	38.60%
Business services, foreign trade and others	1,146,785	2.24%	-	-%
Transport and communication	1,494,990	2.92%	1,589,512	3.18%
Real estate	11,818,373	23.10%	6,143,491	12.27%
Financial services	216,226	0.42%	333,426	0.67%
Social, community and personal households	2,433,138	4.76%	4,546,767	9.08%
	51,151,190	**100%**	**50,051,891**	**100%**

Figures in Kenyan Shilling ('000)	2020	2019
Loans and advances neither past due nor impaired, past due but not impaired and individually impaired	37,233,593	38,099,427
Neither past due nor impaired	7,575,612	7,826,318
Past due but not impaired	6,341,985	4,126,146
Individually impaired	**51,151,190**	**50,051,891**
Gross loans and advances to customers	-3,515,360	-3,109,911
Less: Provision for impaired loans and advances and suspended interest	**-3,515,360**	**-3,109,911**
	47,635,830	**46,941,980**
Net loans and advances to customers		

The loans and advances past due but not impaired are aged between 30 to 90 days. Loans and advances that are aged past 180 days are considered impaired.

The credit quality of the portfolio of loans and advances that were past due but not impaired can be assessed by reference to the internal rating system adopted by the bank. The loans and advances past due but not impaired can be analysed as follows:

	2020	2019
Watch	7,575,612	7,826,318

The fair value of the collateral for loans and advances past due but not impaired is considered adequate.

Loans and advances individually impaired

The fair value of the collateral for loans and advances individually impaired is Ksh 3,587.92 million (2019: Ksh 1,733.47 million).

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a substandard status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of the credit committee indicate that payment will most likely continue. These policies are kept under continuous review.

Figures in Kenyan Shilling ('000)	2020	2019

Repossessed collateral

As at the year end the bank did not hold possession of any repossessed collateral held as security.

Exposure to credit risk

Loans and receivables inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if customers fail to make payments as they fall due.

The bank's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles.

Exposure to currency risk

Refer to note 3 for details of currency risk management for loans and advances.

20. Investments securities

	2020	2019
Quoted equity investments:		
At start of year	429	512
Fair value (loss)	-160	-83
At end of the year	269	429
Unquoted equity investments:		
At start and end of year	19,291	19,391
Fair value (loss)	-	-100
	19,291	19,291
Corporate bonds:		
At start of year	-	35,720
Redemption	-	-35,720
	-	-
	19,560	19,720

The fair values of the quoted equity investments and corporate bonds are categorised under Level 1 based on the information
set out in the accounting policy.

21. Right-of-use asset

Details pertaining to leasing arrangements, where the bank is lessee are presented below:

Net carrying amounts of right-of-use assets

The carrying amounts of right-of-use assets are included in the following line items:

	2020	2019
Leased premises	427,757	303,704
Additions to right-of-use assets		
Leased premises	240,732	412,132

Figures in Kenyan Shilling ('000)	2020	2019

Depreciation recognised on right-of-use assets

Depreciation recognised on each class of right-of-use assets, is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss (note 7), as well as depreciation which has been capitalised to the cost of other assets.

	2020	2019
Leased premises	116,680	108,427

The company leases rental space for office. Each lease is reflected in the balance sheet as a right-of-use asset and a lease liability. The table below describes the nature of the company's leasing activities by type of right-of-use lease asset recognised on balance sheet:

	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No of leases with variable payments linked to an index	No. of leases with termination options
Right-of-use asset - 2020							
Office rental space	28	1 to 8 years	4 years	-	-	-	-
Right-of-use asset - 2019							
Office rental space	28	1 to 9 years	5 years	12	-	-	16

Additional information on the right-of-use assets are as follows as at 31 December 2020:

	Asset	Carrying	Additions amount	Depreciation	Impairement
Leased premises	652,865	427,757	240,732	116,680	-

22. Intangible assets

Reconciliation of intangible assets - 2020	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	22,328	-	-	-19,334	2,994
	22,328	0	0	19,334	2,994

Reconciliation of intangible assets - 2019	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	18,268	4,060	-	-19,334	2,994
	18,268	4,060	-	-19,334	2,994

Reconciliation of intangible assets

	2020			2019		
	Cost/ Valuation	Accumulated amortisation	Carrying Value	Cost/ Valuation	Accumulated amortisation	Carrying Value
Computer software	22,328	-19,334	2,994	22,328	-17,326	5,002

Other information

In the opinion of management there is no impairment in the value of intangible assets. Amortisation costs are included in non interest expenses in the profit or loss.

23. Property, plant and equipment

	2020			2019		
	Cost/ Valuation	Accumulated depreciation	Carrying Value	Cost/ Valuation	Accumulated depreciation	Carrying Value
Buildings	551,990	-18,968	533,022	33,277	(8,046)	25,231
Furniture and fittings	292,508	-129,031	163,476	188,276	(104,610)	83,666
Motor vehicles	29,650	-23,446	6,204	29,650	(21,378)	8,272
IT equipment	232,660	-200,868	31,793	189,766	(178,930)	10,836
Leasehold improvements	207,654	-144,221	63,433	189,417	(127,773)	61,644
Total	**1,314,462**	**-516,534**	**797,928**	**630,386**	**-440,737**	**189,649**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Buildings	25,231	-	-	518,713	-10,922	533,022
Furniture and fixtures	83,666	17,616	-1,049	86,744	-23,501	163,476
Motor vehicles	8,272	-	-	-	-2,068	6,204
IT equipment	10,836	42,948	-	-	-21,991	31,793
Leasehold improvements	61,644	18,237	-	-	-16,448	63,433
Capital - Work in progress	605,457	-	-	-605,457	-	-
	795,106	78,801	-1,049	-	-74,930	797,928

Reconciliation of property, plant and equipment- 2019

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	29,416	-	-3,637	-548	25,231
Furniture and fixtures	85,839	10,440	-661	-11,952	83,666
Motor vehicles	7,922	3,390	-283	-2,757	8,272
IT equipment	11,035	9,374	-	-9,573	10,836
Leasehold improvements	75,227	1,110	-	-14,693	61,644
Capital - Work in progress	294,474	310,983	-	-	605,457
	503,913	335,297	-4,581	-39,523	795,106

In the opinion of management, there is no impairment in the value of property and equipment.

24. Deferred tax

Deferred tax asset		
Deferred tax	**6,281**	**83,917**
Reconciliation of deferred tax asset		
At beginning of year	83,917	72,221
Accelerated capital allowance	-69,474	-4,785
Provisions	-8,162	16,481
	6,281	**83,917**

Recognition of deferred tax asset

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

- the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and
- the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

Figures in Kenyan Shilling ('000)	2020	2019

25. Customer deposits

Savings Deposits	9,311,022	9,050,950
Current Deposits	10,367,391	10,412,424
Term deposits	115,321,801	97,710,062
	135,000,214	**117,173,436**
Analysis of customer deposits by maturity		
Payable within 90 days	55,820,126	67,550,197
Payable after 90 days and within one year	66,597,042	48,740,163
Payable after one year	12,583,046	883,076
	135,000,214	**117,173,436**

	2020	2020	2019	2019
Non-profit institution and individuals	115,378,700	85.00	99,030,981	84.52
Private companies	19,508,246	14.45	17,653,821	15.07
Insurance companies	113,268	0.08	488,634	0.42
	135,000,214	**100**	**117,173,436**	**100**

Included in customer accounts were deposits of Ksh 5,921.167 million (2019: Ksh 5,416.152 million) collateral for loans and advances. The fair value of those deposits approximates the cerrying amount.

26. Share capital

Authorised		
98,971,676 Ordinary shares of Ksh 20/= each	1,979,434	1,979,434
Issued		
98,971,676 Ordinary shares of Ksh 20/= each	1,979,434	1,979,434

All issued shares have been fully paid.

27. Fair value reserve

The fair value reserve relates to the cumulative net change in fair value of financial assets until the investment is derecognised. The current year movements have been set out in (Note: 13).

28. Statutory loan loss reserve

Where impairment losses required by legislation or regulation exceed those computed under International Financial Reporting Standards (IFRS's), the excess is recognised as a statutory reserve and accounted for as an appropriation of Retained Earnings. The reserves are not distributable.

29. Borrowings with other banks

Borrowings from foreign branches	3,193,552	180,399
Borrowings from local banks	212,027	1,986,890
	3,405,579	**2,167,289**
Split between non-current and current portions		
Current liabilities	3,405,579	2,167,289

Figures in Kenyan Shilling ('000)	2020	2019

30. Lease liabilities

The maturity analysis of lease liabilities is as follows:		
Within one year	45,929	54,587
Two to five years	355,860	190,051
More than five years	77,000	81,717
	478,789	**326,355**
Less finance charges component	-211,795	-144,365
	266,994	**181,990**
Non-current liabilities	432,860	271,768
Current liabilities	45,929	54,593
	478,789	**326,361**

The Bank has elected not to recognise a lease laibility for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred lease rentals on operating lease expense.

31. Other liabilities

Gratuity and leave provisions	333,937	302,252
Accruals and other payables	327,192	250,114
Provisions for impairment on unutilised facilities and off balance sheet items	90,724	119,318
	751,853	**671,684**

32. Cash generated from operations

Profit before taxation	5,790,524	5,466,202
Adjustments for:		
Depreciation and amortisation	193,618	150,057
(Profit)/Loss on sale of assets	-894	-2,566
Finance costs	39,265	42,601
Changes in working capital:		
Loan and advances to customers	-693,850	-5,371,132
Placements with other banks	79,176	3,056,643
Other assets	154,618	-39,398
Borrowings with other banks	1,238,290	2,118,798
Customer deposits	17,826,776	15,215,099
Other liabilities	62,371	577,427
	24,689,894	**21,213,731**

33. Dividends paid

Dividends	**-1,979,434**	**-1,979,434**

Dividends proposed are from capital profits.

34. Off-balance sheet financial instruments, contingent liabilities and commitments

In common with banking business, the bank conducts business involving acceptances, guarantees, performance bonds and letters of credit. The majority of these facilities are offset by corresponding obligations from third parties.

Figures in Kenyan Shilling ('000)	2020	2019
Contingent liabilities		
Spots	89,300	50,725
Letters of credit	2,455,186	1,958,613
Letters of guarantees	3,408,342	3,319,570
Bills sent for collection	1,422,732	1,691,508
Forwards	192,864	-
	7,568,424	**7,020,416**

An acceptance is an undertaking by a bank to pay a bill of exchange on a specified due date. The bank expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the bank to make payments to third parties on production of credit compliant documents which are subsequently reimbursed by customers.

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

Based on the estimate of the financial effect of the contingencies and the corresponding obligations from third parties, no loss is anticipated.

The bank has open lines of credit facilities with correspondent banks.

	2020	2019
Commitments		
Undrawn formal stand-by facilities, credit lines	5,444,965	4,735,719

Commitments to lend are agreements to lend to customers in future subject to certain conditions. Such commitments are normally made for a fixed period. The bank may withdraw from its contractual obligation for the undrawn portion of agreed facilities by giving reasonable notice to the customer.

The pending litigation claims relate to cases instituted by third parties against the bank. Judgement in respect of these cases had not been determined as at December 31, 2020. The directors are of the opinion that no liabilities will crystallise.

35. Earnings per share

Basic earnings per share is calculated on the profit attributable to the shareholders and on the weighted average number of shares outstanding during the year adjusted for the effect of any share issue during the year.

	2020	2019
Net income for the period attributable to shareholders	4,522,525	4,092,770
Adjusted weighted average number of ordinary shares in issue (absolute)	98,971,674	98,971,674
Diluted/Basic earnings per share	45.69	41.35

36. Related parties

Included in loans and advances and customer deposits are amounts advanced to/received from certain directors and companies in which directors are involved either as shareholders or directors (related companies). In addition, contingent liabilities include guarantees and letters of credit which have been issued to related companies.

Key management includes the directors and other members of key management.

Figures in Kenyan Shilling ('000)	2020	2019
(a) Compensation to key management		
Short-term employee benefits	36,875	36,639
Post-employment benefits	10,826	11,729
	47,701	**48,368**
(b) Interest received from loans and advances to:		
Related companies	4,219	1,260
Senior management employees	1,197	1,056
Other employees	36,883	37,769
	42,299	**40,085**
(c) Interest paid on deposits from:		
Directors	112	-
Senior management employees	25	26
Other employees	2,706	2,848
	2,843	**2,874**
(d) Management fees paid		
Related companies	**28,365**	**63,045**

(e) Outstanding loans and advances	Directors		Related companies		Senior management employees		Other employees	
	2020	2019	2020	2019	2020	2019	2020	2019
At start of year	-	-	18.370	15,793	14,821	15,887	505,542	444,730
Advances during the year	-	-	13,922	18,370	1,398	2,119	76,908	109,907
Interest charged	-	-	4,219	4,441	1,197	1,260	36,883	38,825
Repayments during the year	-	-	-19,233	-20,234	-4,223	-4,445	-83,542	-87,920
	-	-	**17,288**	**18,370**	**13,193**	**14,821**	535,809	**505,542**

The loans and advances to related parties are performing.

No provisions have been recognised in respect of the loans and advances to directors, related parties or staff as they are performing well.

(f) Deposits	Directors		Related companies		Senior management employees		Other employees	
	2020	2019	2020	2019	2020	2019	2020	2019
At start of year	315,788	665	28	-	257	476	85,022	88,470
Deposits received during the year	452,993	594,299	-	2,234	4,349	675	193,360	38,109
Interest paid during the year	112	39,565	-	149	25	26	2,706	2,848
Withdrawals during the year	-317,823	-318,741	-28	-2,355	-3,711	-920	-153,659	-44,405
	451,070	**315,788**	-	**28**	**920**	**257**	**127,429**	**85,022**

Figures in Kenyan Shilling ('000)	2020	2019
(g) Directors emoluments		
Fees	1,205	1,325
Others	7,927	11,487
	9,132	**12,812**

All transactions with related parties were at arms length and at terms and conditions similar to those offered to other major customers.

37. Dividend payable

Proposed dividends	1,979,434	1,979,434

38. Capital commitments

Authorised capital expenditure	-	700,000

Thee above were capital commitments relating to construction of the new Head Office building along Muthithi Road.

39. Comparative figures

Previous year's figures have been regrouped / rearranged wherever necessary in order to make them comparable with that of current financial period.

40. Fair value

Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the bank can access at measurement
date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or
indirectly.

Level 3: Unobservable inputs for the asset or liability.

Previous year's figures have been regrouped / rearranged wherever necessary in order to make them comparable with that of current financial period.

41. Events after the reporting period

The directors are not aware of any other material event which occurred after the reporting date and up to the date of the director's report.

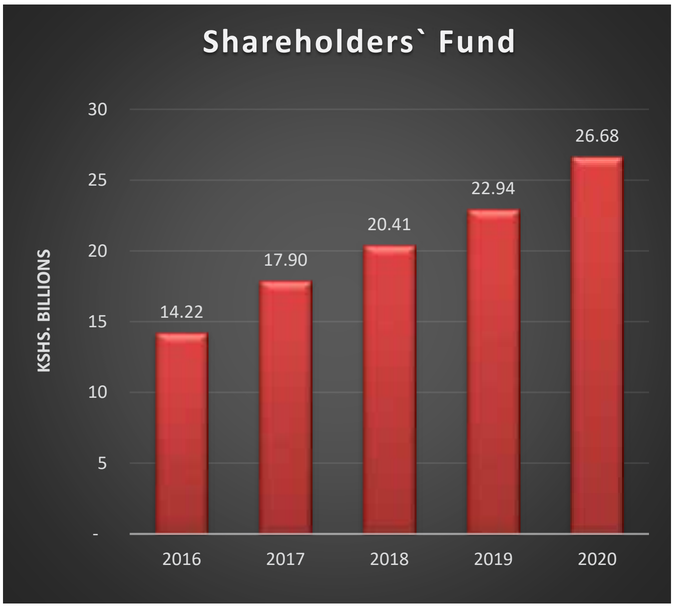
Figures in Kenyan Shilling ('000)	2020	2019

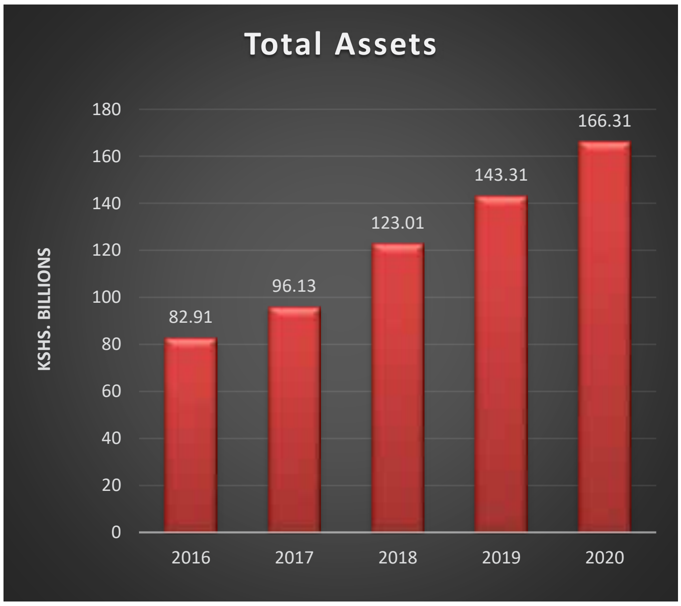
APPENDIX

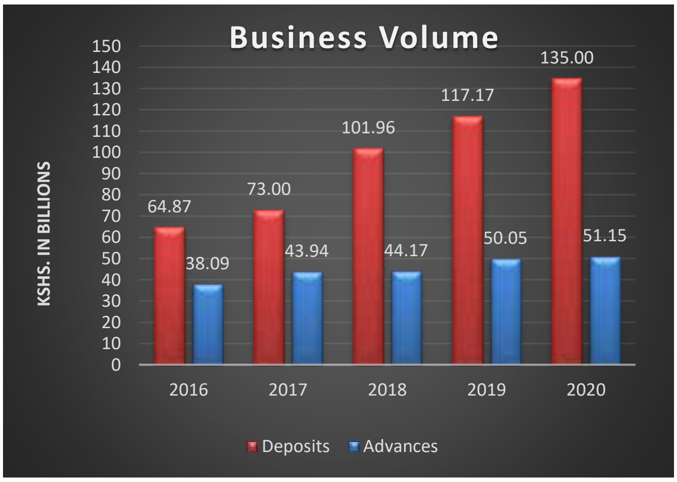
III OTHER DISCLOSURES

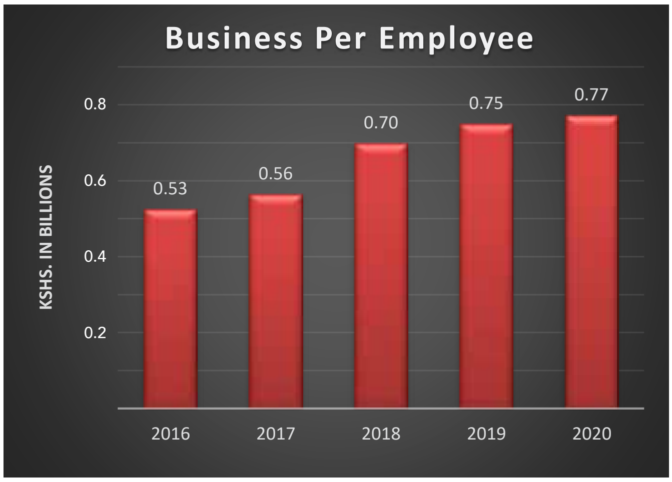
	2020	2019
1.0 NON-PERFORMING LOANS AND ADVANCES		
(a) Gross Non-performing loans and advances	6,341,985	4,126,146
(b) Less: Interest in Suspense	337,586	238,534
(c) Total Non-Performing Loans and Advances (a-b)	**6,004,399**	**3,887,612**
(d) Less: Loan Loss Provision	2,417,067	2,154,146
(e) Net Non-Performing Loans and Advances(c-d)	**3,587,332**	**1,733,466**
(f) Discounted Value of Securities	3,587,332	1,733,466
(g) Net NPLs Exposure (e-f)	-	-
2.0 INSIDER LOANS AND ADVANCES		
(a) Directors, Shareholders and Associates	-	18,370
(b) Employees	566,293	521,875
(c) Total Insider Loans and Advances and other facilities	**566,293**	**540,246**
3.0 OFF-BALANCE SHEET ITEMS		
(a) Letters of credit,guarantees, acceptances	5,863,528	5,278,183
(b) Forwards, swaps and options	282,164	50,725
(c) Other contingent liabilities	1,422,732	1,691,508
(d) Total Contingent Liabilities	**7,568,424**	**7,020,416**
4.0 CAPITAL STRENGTH		
(a) Core capital	**26,670,394**	**22,634,933**
(b) Minimum Statutory Capital	**1,000,000**	**1,000,000**
(c) Excess/(Dificiency)(a-b)	**25,670,394**	**21,634,933**
(d) Supplementary Capital	**-**	**223,812**
(e) Total Capital (a+d)	**26,670,394**	**22,858,745**
(f) Total risk weighted assets	**86,841,821**	**69,827,913**
(g) Core Capital/Total deposits Liabilities	**19.76%**	**19.32%**
(h) Minimum statutory Ratio	8.00%	8.00%
(I) Excess/(Deficiency) (g-h)	11.76%	11.32%
(j) Core Capital / total risk weighted assets	**30.71%**	**32.42%**
(k) Minimum Statutory Ratio	10.50%	10.50%
(l) Excess (Deficiency) (j-k)	20.21%	21.92%
(m) Total Capital/total risk weighted assets	**30.71%**	**32.74%**
(n) Minimum statutory Ratio	14.50%	14.50%
(o) Excess/(Deficiency) (m-n)	16.21%	18.24%
(p) Adjusted Core Capital/Total Deposit Liabilities*	19.87%	19.52%
(q) Adjusted Core Capital/Total Risk Weighted Assets*	30.88%	32.75%
(r) Adjusted Total Capital/Total Risk Weighted Assets*	30.88%	33.07%
14 LIQUIDITY		
14 (a) Liquidity Ratio	**83.28%**	**78.37%**
14.2 (b) Minimum Statutory Ratio	**20.0%**	**20.0%**
14.3 (c) Excess (Deficiency) (a-b)	63.3%	58.4%

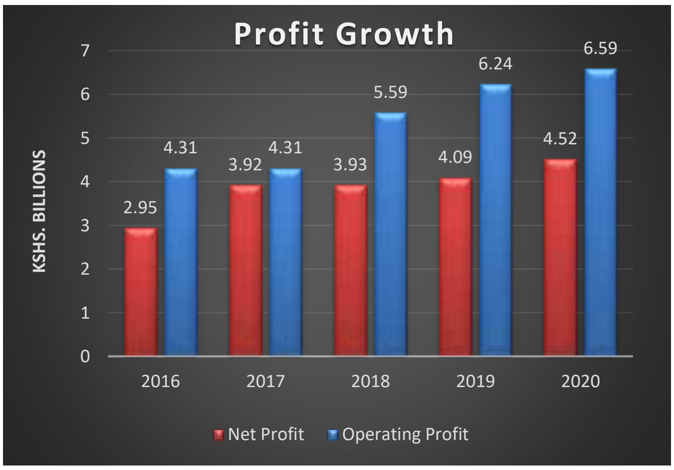
FINANCIAL HIGHLIGHTS











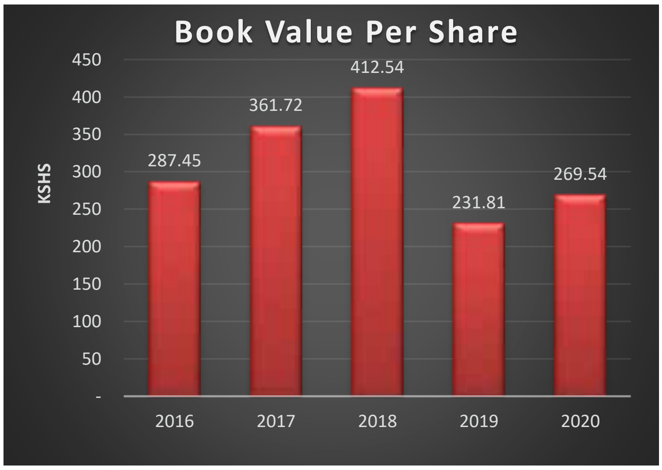


PHOTO GALLERY

Annual General Meeting held on 19.09.2020


Staff gathering at Head Office

Bank's participation at SME Expo at KICC

Vigilance Awareness Week Pledge Ceremony at Head Office


Mr. Saravanakumar A, MD greeting Dr. Ravinder Paul, High Comm. of India on his appointment to Kenya

Bank of Baroda (Kenya) Ltd.

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