BANK OF AFRICA KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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BOARD OF DIRECTORS

Name		Nationality
Ambassador Dennis Awori*	Chairman, Non-Executive Director	Kenyan
Amine Bouabid	Non-Executive Director	Moroccan
Abdelkabir Bennani	Non-Executive Director	Moroccan
Susan Kasinga*	Non-Executive Director	Kenyan
Eunice Mbogo*	Non-Executive Director	Kenyan
Kathleen Cornelia Goense	Non-Executive Director (Resigned on 1 September 2020)	Dutch
Ghali Lahlou	Non-Executive Director	Moroccan
Ronald Marambii	Managing Director	Kenyan

*Independent Non-Executive Directors

COMPANY SECRETARY

Anne Wanjiru Gitau
CPS (K)
Reg No. 2497
BOA House
School Lane, Westlands
P.O. BOX 69562
00400 Nairobi, Tom Mboya

REGISTERED OFFICE

BOA House
L. R. No 1870/III/598
School Lane, Westlands
P.O. Box 69562
00400 Nairobi, Tom Mboya

INDEPENDENT AUDITOR

KPMG Kenya
8th Floor, ABC Towers
ABC Place, Waiyaki Way
P.O. Box 40612
00100 Nairobi, GPO

The Directors are pleased to submit their annual report together with the financial statements for the year ended 31 December 2020. The report discloses the state of affairs of the Bank.

1. Principal activities

The Bank is engaged in the business of commercial banking and provision of related services and is licensed under the Banking Act and regulated by the Central Bank of Kenya.

2. Results

The results of the Company for the year are set out on pages 17.

3. Dividend

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2020 (2019: Nil).

4. Directors

The Directors who served during the year ended 31 December 2020 and up to the date of this report are as set out in page 1.

5. Going concern

The Bank incurred a loss of KShs 393,465,000 during the year ended 31 December 2020 (2019 loss of KShs 2,039,838,000), the Bank's negative retained earnings dipped further and were in a deficit of KShs 4,723,886,000 (2019 a deficit of KShs 4,146,484,000). As at that date, the Bank was compliant on all capital ratios other than core capital to deposit ratio, single borrower limit to core capital and investment in land and buildings to core capital ratio. In an effort to ensure the Bank continues to operate on a going concern basis, the shareholder injected to the Bank an additional USD 15 million (KShs1.5 billion) for tier 1 capital during the year.

6. Business review

Please see pages 7 to 12 for a detailed analysis of the above.

7. Relevant audit information

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

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

8. Auditor

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

9. Indemnity

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

10. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Board of Directors held on 8TH FEBRUARY 2021

BY ORDER OF THE BOARD

ANNE W. GITAU CPS (K)
Reg. No.
2497

Anne Gitau
Company Secretary

Date: 8TH FEBRUARY 2021

Corporate governance outlines the way companies are run and managed, the role of the Board of Directors and the framework of internal controls. The Board of Bank of Africa Kenya Limited (BOA) is keen on ensuring the adoption of good corporate governance.

THE BOARD

As at 31 December 2020, the Board of Directors comprised of the Chairman, the Managing Director, and five Non-Executive Directors. All Directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, each Director receives information about the Bank and is advised of the legal, regulatory and other obligations of a Director.

The full Board meetings were held as shown in the table below. In the event that a Director cannot attend a Board Meeting, an acceptable apology with a valid reason is sent to the Chairman in advance of the meeting. Directors are given appropriate information that guides their control over strategic, financial, operational, compliance and governance matters. The Managing Director is in charge of the day-to-day operations while the Board oversees the performance of the executive management.

The following table shows the number of Board meetings held during the year and the attendance of individual Directors.

Board meeting membership and attendance in 2020

	5 February 2020	15 June 2020	14 September 2020	7 December 2020
Ambassador Dennis Awori	√	√	√	√
Amine Bouabid	√	√	√	√
Abdelkabir Bennani	√	√	√	√
Susan Kasinga	√	√	√	√
Eunice Mbogo	√	√	√	√
Kathleen Cornelia Goense	AP	√	N/A	N/A
Ronald Marambii	√	√	√	√
Ghali Lahlou	√	√	√	√

√ – Attended
AP – Absent with apology
N/A–Not Applicable as Kathleen Cornelia Goense resigned from the Board Committee on 1 September 2020.

BOARD COMMITTEES

To increase efficiency and allow deeper focus on the management of key functions of the Bank, the Board has established the following four main Committees: -

The Board Audit Committee:

The main role of the Board Audit Committee is to provide independent oversight of the Bank's financial reporting and internal control systems to ensure that checks and balances within the Bank are in place. The Committee also reviews the performance and findings of the internal and external auditors, findings of the regulatory authorities, and recommends appropriate remedial action. The Committee has direct access to the Company's internal and external auditors. In the year 2020, the Members of this Committee were Ms. Susan Kasinga (Chairperson), Mr. Abdelkabir Bennani, Ms. Eunice Mbogo, and Mr. Ghali Lahlou (resigned from the Committee on 14 July 2020).

BOARD COMMITTEES (Continued)

The Board Audit Committee (Continued)

Board Audit Committee Meeting membership and attendance in 2020				
	30 January 2020	8 June 2020	8 September 2020	30 November 2020
Susan Kasinga	√	√	√	√
Abdelkabir Bennani	√	√	√	√
Eunice Mbogo	√	√	√	√
Ghali Lahlou	√	√	N/A	N/A

√ – Attended
AP – Absent with apology
N/A- Not Applicable as Ghali Lahlou resigned from the Board Audit Committee on the 14 July 2020

The Board Credit Committee:

The overall responsibility of the Board Credit Committee is to approve and review the credit risk strategy and credit risk policies of the Bank. The Committee sets the acceptable risk appetite and tolerance that the Bank is willing to engage. In the year 2020, the Members of this Committee were Ms. Susan Kasinga (Chairperson), Ms. Eunice Mbogo, Mr. Abdelkabir Bennani and Mr. Ghali Lahlou.

The Board Risk Management Committee:

This Committee's main responsibility is to assist the Directors in discharging their responsibility of ensuring quality, integrity and reliability of the Bank's enterprise-wide risk management and corporate accountability and associated risks in terms of management, assurance and reporting. The Committee also assists in fostering an effective risk management culture throughout the Bank as well as assisting the Board in fulfilling its oversight responsibility relating to compliance with legal and regulatory requirements and the Bank's policies. In the year 2020, the Members of this Committee were Ms. Eunice Mbogo (Chairperson), Mr. Abdelkabir Bennani, Ms. Susan Kasinga and Mr. Ghali Lahlou.

The Board Nomination, Compensation and Human Resources Committee:

The purpose of this Committee is to enable the Board to discharge its responsibilities in relation to the nomination of appropriate directors to the Board and its committees, the assessment of the performance of the Board, Directors (including the Executive Directors) and Senior Management, succession planning for Directors and Senior Management, remuneration, welfare, retention and human capital development policies and programs for the Directors and all staff of the Bank. In 2020, the Members of this Committee were Ms. Eunice Mbogo (Chairperson), Ms. Susan Kasinga, Mr. Abdelkabir Bennani, and Mr. Ghali Lahlou.

At each quarterly Board Meeting, the Chairpersons of the various Board Committees report to the Board on the highlights of the Committees' deliberations and escalate to the Board all matters requiring its consideration and approval.

DIRECTORS' REMUNERATION

The remuneration of all Directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Information on the aggregate amount of emoluments and fees paid to Directors is disclosed in Note 16 (g) of the financial statements.

BOARD PERFORMANCE EVALUATION

Under the Prudential Guidelines issued by the Central Bank of Kenya, the Board is responsible for ensuring that an evaluation of its performance, that of its Committees and individual Directors is done. The results of such an evaluation are to be provided to the Central Bank of Kenya.

In a process led by the Board Chairman and supported by the Company Secretary, a comprehensive evaluation of the performance of the Board, the Board Committees and the Board Chairman for the year 2020 was conducted in the last quarter of 2020, with the aim of assessing capacity and effectiveness relative to the mandates, and identifying any challenges that could form a basis for action in the coming year.

The Directors, following the evaluation exercise, agreed that the following are some of the areas that the Board shall be keenly monitoring in 2021, and subsequent years:

(a) The state of the economy and its macroeconomic indications
(b) The Bank's Financial performance and sustainability of the Bank, especially in light of the COVID-19 pandemic
(c) Costs rationalization
(d) The Bank's Capital Adequacy
(e) Non-performing accounts recoveries and their evolution

GOING CONCERN

The Board ensures that the Bank has adequate resources to continue in business into the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements. In an effort to ensure the Bank continues to operate on a going concern basis, the shareholder has injected an additional USD 15 million (KShs1.5 billion) of tier 1 capital.

INTERNAL CONTROLS

The Board has the responsibility of ensuring that adequate systems of internal control that provide reasonable assurance of effective and efficient operations are in place.

The Board strives to achieve a strong control environment including the evaluation of non-financial risks guided by written policies and procedures to identify and manage risk.

The Bank's Internal Audit Department which is independent, reports to the Board Audit Committee and provides an independent confirmation that BOA Group business standards, policies and procedures are being complied with.

Business performance review

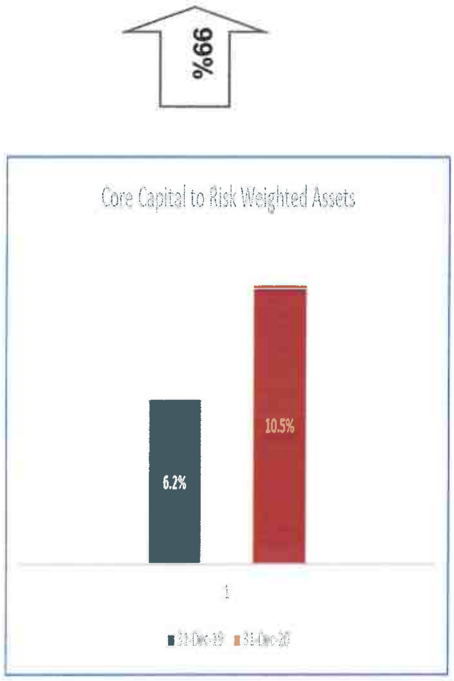
Statement of Profit or Loss

	31-Dec-16 KShs'000 Audited	31-Dec-17 KShs'000 Audited	31-Dec-18 KShs'000 Audited	31-Dec-19 KShs'000 Audited	31-Dec-20 KShs'000 Audited
Interest income	6,515,259	4,125,249	3,389,688	2,926,200	2,689,198
Interest expense	(3,492,703)	(2,870,214)	(2,206,815)	(1,929,093)	(1,688,763)
Net interest income	**3,022,556**	**1,255,035**	**1,182,873**	**997,107**	**1,000,435**
Non-interest income	946,258	1,194,388	1,005,492	780,927	1,008,864
Operating income	**3,968,814**	**2,449,423**	**2,188,365**	**1,778,034**	**2,009,299**
Expenses	(2,905,496)	(2,636,926)	(2,284,309)	(2,582,303)	(2,258,513)
Impairment on loans and advances	(1,216,268)	(6,756)	155,933	(2,395,761)	(430,655)
Operating expenses	**(4,121,764)**	**(2,643,682)**	**(2,128,376)**	**(4,978,064)**	**(2,689,168)**
Profit/(loss) from operations	**(152,950)**	**(194,259)**	**59,989**	**(3,200,030)**	**(679,869)**
Share of profit of associates	136,453	229,444	149,572	270,354	-
Profit/(loss) before income tax	**(16,497)**	**35,185**	**209,561**	**(2,929,676)**	**(679,869)**
Income tax credit/(expense)	26,967	32,433	(36,488)	889,838	286,404
Profit/(loss) for the year	**10,470**	**67,618**	**173,073**	**(2,039,838)**	**(393,465)**

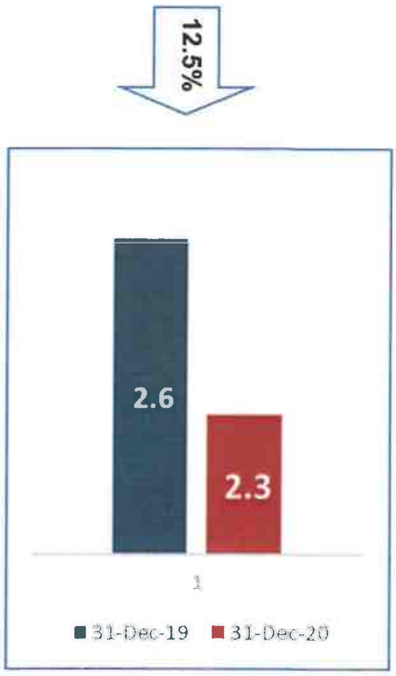
Statement of Financial Position

	31-Dec-16 KShs'000 Audited	31-Dec-17 KShs'000 Audited	31-Dec-18 KShs'000 Restated Audited	31-Dec-19 KShs'000 Audited	31-Dec-20 KShs'000 Audited
Assets					
Government securities and other securities	5,293,768	4,919,866	6,512,645	7,287,730	8,911,970
Loans and advances to customers	31,541,959	27,388,460	21,188,115	15,982,158	15,009,358
Other assets	16,636,280	19,478,963	18,815,481	18,137,040	18,825,373
Property and equipment and intangible assets	2,523,664	2,404,002	1,897,522	2,589,190	2,170,624
Total assets	**55,995,671**	**54,191,291**	**48,413,763**	**43,996,118**	**44,917,325**
Liabilities					
Customer deposits	34,463,707	31,572,432	30,122,457	33,327,232	27,976,537
Due to banks	2,911,521	7,898,519	6,918,773	3,396,750	6,281,644
Borrowed funds	9,108,249	5,662,402	4,683,357	1,439,516	3,823,865
Derivative liabilities held for risk management	-	-	-	-	342,685
Other liabilities	1,094,208	590,233	620,090	1,556,859	1,073,207
Total equity	8,417,986	8,467,705	6,069,086	4,275,761	5,419,387
Total liabilities and equity	**55,995,671**	**54,191,291**	**48,413,763**	**43,996,118**	**44,917,325**

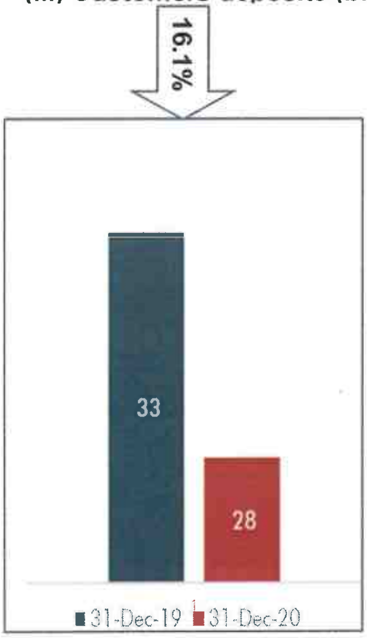
(i) Core Capital to Risk Weighted Assets



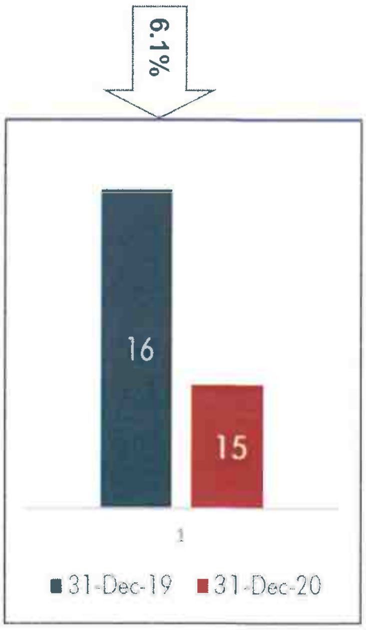
(ii) Operating expenses



(iii) Customers deposits (billion KShs)



(iv) Loans and advances (billion of KShs)



Potential threats

Description	Example	Mitigation Measures
Credit Risk		
Failure of an obligor of the bank to repay principal or interest at the stipulated time or failure of otherwise to perform as agreed.	Default on credit facilities	Credit policy framework and governance committees, Risk based loan pricing, pre- and post-disbursement controls, Loan book performance monitoring, set up and review of various risk appetite limits (concentration, currency, country, insider etc) and periodic assurance reviews.
Cyber Risk		
Cyber risk' means any risk of financial loss, disruption or damage to the reputation of an organisation from some sort of failure of its information technology systems.	Cyber security attacks - Social Engineering, Denial of Service, Phishing, Insider threats	Monitoring of environment through security devices and antivirus solutions. Vulnerability and Penetration testing of the environment, review of IT key risk indicators, Cyber Security Policy and framework, Staff training and awareness. Constitution of committee to review and respond to cyber incidences while ensuring elimination of reoccurrence.
Information Risk		
Risk arising from weaknesses in the ICT environment, system availability or data integrity.	System downtime Data leakage and privacy breaches Inadequate vendor support and failure to comply with Bank policies.	Business Continuity in place (System Contingency plans & Disaster Recovery), Encryption, use of secure data exchange channels, Service Level Agreements & Non-disclosure agreements for Vendor management. Implementation of updated Information Security Management System (ISMS), BOA Group oversight and monitoring.
Market Risk		
Market risk at BOA includes: Interest rate risk, foreign exchange risk, investment risk, settlement risk, liquidity risk and country risk, this poses a potential loss of earning or economic value due to sudden shifts in financial and economic factors.	Loss in economic value due to shift in interest rate	Guiding policies, framework, and governance committees (Daily Treasury & Assets & liabilities), risk appetite limits set up and monitoring, stress testing, BOA Group oversight and monitoring through group middle office.

Potential threats (Continued)

Description	Example	Mitigation Measures
Compliance Risk		
Failure to adhere to legal and regulatory requirements.	Non-adherence to new or changes to existing legislation, regulation, and prudential guidelines.	Regulatory watch. Gap analysis and enhancement of the internal policy environment in line legal and regulatory.
Reputational Risk		
Potential that negative publicity regarding BOAK's business practices, whether true or not, will cause a decline in the customer confidence, costly litigation or revenue reductions. This risk may be due to the failure of the bank to effectively manage all the other risks.	Damage to brand Negative publicity	Tone at the top set to demonstrate business integrity and appropriate oversight. Root causes analysis of risks and issues identified and timely resolution. Customer-focused and effective management of customer feedback on various platforms. Building goodwill with customers through continuous engagements. Strong risk management and ethics culture.
Operational risk		
This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Inadequate/insufficient documentation of processes or procedures. Lack of inbuilt system controls Health and safety issues.	Robust operations risk management framework that ensures operational risks are continuously identified and measured through risk mapping, segregation of tasks, periodic risk assessment, key risk indicators, analysis of risk events reported, and corrective action taken.

Employee Relations

Capacity Building

Strengthening the skills and abilities of our staff is a main area of focus for the year. Enhancing their existing capabilities as we set them out for bigger tasks will be accompanied by a subsequent increase in Training and Development activity as well as a Succession Planning mind set. The Talent Management Framework will set out what needs to be done to retain our top performers whilst remaining competitive.

Employee Relations (Continued)

Capacity Building (continued)

Internal mobility will allow us to retain talent and build motivation levels, and this will be accompanied by leadership capacity building initiatives. We will equally leverage on external recruitment for key positions to bring in the necessary capabilities for sustainability and market competitiveness.

Learning and Development

We continue to offer relevant training programmes to all staff based on performance gaps, the Bank Strategy and market requirements. Focus areas for the year include but not limited to Trade Finance, Small and Medium Enterprise (SME), Debt recovery, Channels, Know Your Customer (KYC) and Anti-Money Laundering (AML) Compliance. Leadership development will be a key priority as we aim to grow not only Managers who are new to role, but also sharpen the skills of seasoned ones.

We have established regional collaborations with regards to training calendars and will benefit greatly from attending not only trainings organised by ourselves, but those by our partners in the region. Bank wide security and product knowledge programs will be enhanced, with attached accountability as it will now account for a score on each staff's performance appraisal under the Learning and Development KPI (Key Performance Indicator).

Employee wellness

Employee wellness programs support a healthy and productive workforce. In addition to proactively supporting employees in managing their health and wellbeing with annual health checks and providing a comprehensive support programme for those dealing with illness, we will continue to schedule wellness talks on areas impacting on staff health including mental illness, management of lifestyle/ chronic diseases and work life balance.

Awards and recognition

In 2021, it is expected that sporting and charity activities such as the Kenya Institute of Bankers games, the First Lady's marathon and the Kenya Premier Chess League will resume following the Covid 19 interruption experienced in 2020. The Bank has in previous years received awards in these areas, whilst getting a chance to support the corresponding Corporate Social Responsibility (CSR) activities.

The Bank will seek to find cost effective ways of recognizing staff who have been exemplary in their various roles on a regular basis. This will be aligned to the outcomes of the Performance Management evaluation tool in place.

Social and environmental management

The bank believes in creating and maintaining long term valuable and sustainable partnerships with all its stake holders. This is achieved through ethical and responsible practices which are entrenched in the bank's business. Compliance, good governance and ethical code of conduct in all our business dealings is non-negotiable.

In line with sustainable development goals, the bank is committed to eradicate poverty by supporting business activities and investments aimed at creating environmentally sustainable economy. The bank has developed innovative products to enhance financial inclusion especially to the vulnerable groups such as the youth and farmers.

Employee Relations (Continued)

Social and environmental management (continued)

Bank of Africa Kenya (BOAK) continues to play its role as a socially responsible citizen through four CSR pillars namely; Education, Sports, Environment and health.

Financial year 2020 has been particularly challenging owing to Covid-19 pandemic. In support of the community and livelihoods, the bank together with other partners distributed food staff to vulnerable families as well as support to students under the Education programme with data bundles.

In addition, as a caring employer, the bank set up a multi departmental Business continuity/resiliency committee to manage affairs of employees and clients to protect them from contracting/spreading the virus. Clients whose businesses were affected by the pandemic were given moratorium and allowed to reschedule their facilities in line with the now normal realities of their business environment and also in compliance with Central Bank of Kenya (CBK) directive. To ensure social distancing in the office as directed by the Government through the ministry of health, most employees were enabled to work remotely.

The Directors are responsible for the preparation and fair presentation of the financial statements of Bank of Africa Kenya Limited set out on pages 17 to 106 which comprise the statement of financial position 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 the notes to the financial statements including a summary of significant accounting policies and other explanatory information.

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

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

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

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

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the Bank will not be a going concern for at least the next twelve (12) months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 8TH FEBRUARY 2021

Chairman: Ambassador Dennis Awori

Managing Director: Ronald Marambii

Director: Susan Kasinga

Company Secretary: Anne Gitau

ANNE W. GITAU CPS (K) Reg. No. 2497

Date: 8 FEBRUARY 2021

KPMG

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BANK OF AFRICA KENYA LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bank of Africa Kenya Limited set out on pages 17 to 106, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Bank of Africa Kenya Limited as at 31 December 2020, and of the financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

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

Other information

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

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

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

Directors' responsibilities for the financial statements

As stated on page 13, the Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Kenyan Companies Act, 2015, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

KPMG

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BANK OF AFRICA KENYA LIMITED (CONTINUED)

Report on the audit of the financial statements (Continued)

Directors' responsibilities for the financial statements (Continued)

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

The Directors are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

— Identify and assess the risks of material misstatement of the 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

KPMG

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BANK OF AFRICA KENYA LIMITED (CONTINUED)

Report on the audit of the financial statements (Continued)

Auditor's responsibilities for the audit of the financial statements (Continued)

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

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015, we report to you based on our audit, that in our opinion the information given in the Directors' report for the year ended 31 December 2020 on page 2 and 3, is consistent with the financial statements.

The signing partner responsible for the audit resulting in this independent auditor's report is CPA Jacob Gathecha – P/1610.

KPMG Kenya

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

Date: 26 March 2021

Statement of profit or loss and other comprehensive income

	Notes	2020 KShs'000	2019 KShs'000
Interest income	5	2,689,198	2,926,200
Interest expense	6	(1,688,763)	(1,929,093)
Net interest income		**1,000,435**	**997,107**
Fee and commission income	7	520,336	540,907
Fee and commission expense	7	(5,421)	(6,982)
Net fee and commission income		**514,915**	**533,925**
Foreign exchange income		472,254	660,876
Foreign exchange FVTPL		1,889	(789)
Net foreign exchange income		**474,143**	**660,087**
Other operating income/(loss)	8	19,806	(413,085)
Total income		**2,009,299**	**1,778,034**
Impairment (losses)/gains on other financial assets	4	(29,429)	9,574
Impairment losses on loans and advances, and outstanding commitments and contingent liabilities	17	(401,226)	(2,405,335)
Net operating income/(loss)		**1,578,644**	**(617,727)**
Staff costs	9	(1,004,549)	(1,027,313)
Depreciation and amortisation	10	(396,585)	(393,258)
Other operating costs	11	(857,379)	(1,161,732)
Total operating expenses		**(2,258,513)**	**(2,582,303)**
Loss from operations		**(679,869)**	**(3,200,030)**
Share of profit of associate	19	-	270,354
Loss before income tax		**(679,869)**	**(2,929,676)**
Income tax credit	12	286,404	889,838
Loss for the year		**(393,465)**	**(2,039,838)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net changes fair value in equity investments at FVOCI	18(a)	17,330	69,745
Deferred tax on equity investments at FVOCI	24	(867)	(3,487)
		16,463	**66,258**
Items that may subsequently be reclassified to profit or loss			
Movement in fair value reserve (FVOCI Debt instruments) Debt instruments at FVOCI- net change in fair value		(1,872)	-
Foreign currency translation differences for investments in foreign operations recycled to profit or loss	8/19	-	180,255
		(1,872)	**180,255**
Other comprehensive income, net of tax		**14,591**	**246,513**
Total comprehensive loss for the year		**(378,874)**	**(1,793,325)**

The notes on pages 22 to 106 are an integral part of these financial statements.

Statement of financial position

	Notes	2020 KShs'000	2019 KShs'000
ASSETS			
Cash and balances with Central Bank	13	8,061,820	9,250,628
Derivative assets held for risk management	14	-	212,110
Due from other banking institutions	15	4,164,412	2,938,741
Due from group banks	16(a)	1,766,478	844,230
Loans and advances to customers	17	15,009,358	15,982,158
Investment in equity securities- FVOCI	18(a)	570,261	552,931
Investment in government securities	18(b)	8,911,970	7,287,730
Current income tax recoverable	12	438,004	438,004
Non- current asset held for sale	22	9,490	-
Property and equipment	21	1,968,044	2,396,382
Intangible assets	23	202,580	192,808
Deferred tax asset	24	2,831,857	2,546,320
Other assets	25	983,051	1,354,076
TOTAL ASSETS		**44,917,325**	**43,996,118**
LIABILITIES			
Derivative liabilities held for risk management	14	342,685	-
Due to group banks	16 (b)	6,281,547	3,394,873
Due to other banking institutions	26	97	1,877
Customer deposits	27	27,976,537	33,327,232
Borrowings	28	3,823,865	1,439,516
Other liabilities	29	1,073,207	1,556,859
TOTAL LIABILITIES		**39,497,938**	**39,720,357**
SHAREHOLDERS' EQUITY			
Share capital	30	7,927,449	6,404,949
Share premium	30	1,980,356	1,980,356
Statutory credit risk reserve	31	501,501	317,564
Fair value reserve	32	(266,033)	(280,624)
Retained earnings		(4,723,886)	(4,146,484)
TOTAL SHAREHOLDERS' EQUITY		**5,419,387**	**4,275,761**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**44,917,325**	**43,996,118**

The financial statements on pages 17 to 106 were approved and authorised for issue by the Board of Directors on 8TH FEBRUARY 2021 and signed on its behalf by:

Chairman: Ambassador Dennis Awori

Managing Director: Ronald Marambii

Director: Susan Kasinga

Company Secretary: Anne Gitau

GITAU CPS (K) Reg. No. 2497

The notes on pages 22 to 106 are an integral part of these financial statements

Statement of changes in equity

	Notes	Share capital KShs'000	Share premium KShs'000	Statutory credit risk reserve KShs'000	Fair value reserve KShs'000	Foreign currency translation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2020		**6,404,949**	**1,980,356**	**317,564**	**(280,624)**	**-**	**(4,146,484)**	**4,275,761**
Total comprehensive income								
Loss for the year		-	-	-	-		(393,465)	**(393,465)**
Transfer to statutory credit risk reserve	31	-	-	183,937	-	-	(183,937)	**-**
Net change in equity investments at FVOCI, net of deferred tax		-	-	-	16,463	-	-	16,463
Debt instruments at FVOCI – net change in fair value		-	-	-	(1,872)	-	-	(1,872)
Total comprehensive income for the year		**-**	**-**	**183,937**	**14,591**	**-**	**(577,402)**	**(378,874)**
Transactions with equity holders of the bank contributions and distributions								
Issue of shares/(share allotment)	30	1,522,500	-	-	-	-	-	1,522,500
Total contributions by and distributions to owners		**1,522,500**	**-**	**-**	**-**	**-**	**-**	**1,522,500**
At 31 December 2020		**7,927,449**	**1,980,356**	**501,501**	**(266,033)**	**-**	**(4,723,886)**	**5,419,387**

The notes on pages 22 to 106 are an integral part of these financial statements.

Statement of changes in equity (Continued)

	Notes	Share capital KShs'000	Share premium KShs'000	Statutory credit risk reserve KShs'000	Fair value reserve KShs'000	Foreign currency translation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2019		**6,404,949**	**1,980,356**	**486,296**	**(346,882)**	**(180,255)**	**(2,275,378)**	**6,069,086**
Total comprehensive income								
Loss for the year		-	-	-	-		(2,039,838)	**(2,039,838)**
Transfer to statutory credit risk reserve	31	-	-	(168,732)	-	-	168,732	**-**
Net change in equity investments at FVOCI, net of deferred tax		-	-	-	66,258	-	-	**66,258**
Foreign currency translation differences on investments in foreign operations (recycled to profit or loss)	8	-	-	-	-	180,255	-	**180,255**
Total comprehensive income for the year		**-**	**-**	**(168,732)**	**66,258**	**180,255**	**(1,871,106)**	**(1,793,325)**
At 31 December 2019		**6,404,949**	**1,980,356**	**317,564**	**(280,624)**	**-**	**(4,146,484)**	**4,275,761**

The notes on pages 22 to 106 are an integral part of these financial statements.

Statement of cash flows

	Notes	2020 KShs'000	2019 KShs'000
Cash flows from operating activities			
Net loss before taxation		(679,869)	(2,929,676)
Adjustments for:			
Depreciation and amortisation	10	396,585	393,258
Loss/ (Profit) on disposal of property and equipment	8	15,887	(9,142)
Share of profit of associate	19	-	(270,354)
Impairment of non-current assets held for sale	22	-	29,746
Write off of property, plant and equipment	21	11,530	-
Write off of work in progress	21	-	15,325
Interest expense on lease liabilities	20	45,416	76,850
Net loss on sale of investment securities	8	-	329,638
		(210,451)	**(2,364,355)**
Changes in:			
Derivative assets held for risk management	14	212,110	(128,955)
Loans and advances to customers	17	972,800	5,205,957
Cash reserve requirement	13	556,861	(152,945)
Other assets	25	357,742	(174,610)
Derivative liabilities held for risk management	14	342,685	-
Customer deposits	27	(5,350,695)	3,204,775
Due from other banking institutions	4.1.1	(1,054)	421
Amounts due from group banks	16(a)	683,145	(254,043)
Other liabilities	29	(231,643)	55,212
		(2,458,049)	**7,755,812**
Income tax paid	12	-	-
Net cash flows from operating activities		**(2,668,500)**	**5,391,457**
Cash flows from investing activities			
Acquisition of property and equipment	21	(31,971)	(106,876)
Acquisition of intangible assets	23	(61,461)	(65,013)
Proceeds from sale of property and equipment		-	105,960
Proceeds from sale of shares in associate	19	-	1,154,025
Maturing of investment securities – bills and bonds	18(b)	(2,585,587)	449,097
Dividends received from associate	19	-	78,536
Issue of shares	30	1,522,500	-
Net cash flows generated/(used in) from investing activities		**(1,156,519)**	**1,615,729**
Cash flows from financing activities			
Net repayments from borrowings	28	2,384,349	(3,243,841)
Payment of lease liability	20	(206,161)	(203,175)
Net cash flows used in financing activities		**2,178,188**	**(3,447,016)**
Net increase in cash and cash equivalents		**(1,646,831)**	**3,560,170**
Cash and cash equivalents at 1 January		**8,757,992**	5,197,822
Cash and cash equivalents at 31 December	34	**7,111,161**	**8,757,992**

The notes on pages 22 to 106 are an integral part of these financial statements.

1. General information

Bank of Africa Kenya Limited is incorporated in Kenya under the Kenyan Companies Act, 2015 as a limited liability company, and is domiciled in Kenya. The company is regulated by the Central Bank of Kenya (CBK). The Bank is controlled by Bank of Africa (BOA) Group S.A. incorporated in Luxembourg with its ultimate parent being BMCE Bank incorporated in Morocco. The address of its registered office is:

BOA House
LR No: 1870/III/313 and 1870/III/314
School Lane
Westlands, Nairobi
P.O. Box 69562
00400- Nairobi, Tom Mboya

2. Significant accounting policies

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

2.1 Basis of preparation

(a) Statement of compliance

The financial statements set out on pages 17 to 107 have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Kenyan Companies Act, 2015.

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

(b) Going concern

The Bank incurred a loss of KShs 393.4 million during the year ended 31 December 2020 (2019 loss of KShs 2,039.8 million), the Bank's negative retained earnings dipped further and were in a deficit of KShs 4,723.8 million (2019 a deficit of KShs 4,146.5 million). As at that date, the Bank was compliant on all capital ratios other than core capital to deposits ratio, single obligor limit to core capital and investment in land and buildings to core capital ratio. In an effort to ensure the Bank continues to operate on a going concern basis, the shareholder injected to the Bank an additional USD 15 million (KShs1.5 billion) for tier 1 capital during the year.

In the Financial Year 2019 Financials, the Bank highlighted some initiatives to ensure it operated within the requirements of the Banking Act and the CBK Prudential Guidelines. The following is an update of the key initiatives in the Financial Year 2020.

2. Significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(b) Going concern (Continued)

i. Liquidity Management

The Bank's liquidity position at 31 December 2020 was 59%. This remains a strong pillar of the Bank underlying the ease of access to funding opportunities.

Within the year 2020, the Bank was able to draw USD 60 million from BOA Mer Rouge for the contingency funding reserve of USD 100 million. The funds were used for various Business Development initiatives in the year. Within the year, the Bank prepaid off USD 35 million underlying the Bank's ability to settle its obligations (note 28).

The Bank continues to proactively monitor its liquidity position.

ii. Core Capital Enhancement

As per note 4.5 on Capital Management, the Core and Total Capital levels against Risk Weighted Assets were complaint as at 31 December 2020. This was a result of Capital enhancement as highlighted below;

(a) The Bank received an equivalent of KES 1.522 billion from BOA Group S.A being tranche 1 of the Core Capital in March 2020. The amount was converted into Tier 1 capital in September 2020 as the Cabinet Secretary Treasury and Planning exempted BOA Group S.A from Section 13 (1) of the Banking Act for a period not exceeding 5 years on 11 September 2020 through a Gazette Notice.

(b) Euro 7.38 million of outstanding Subordinated debt from BOA Group SA was renewed in June 2020 for a further 7 years. Consequently, the entire debt now qualifies for tier 2 capital as per the CBK Prudential Guidelines.

(c) The Bank has signed a USD 10 million Portfolio Risk Sharing Guarantee Scheme with (African Guarantee Fund) AGF to support SME growth. The partnership was noted by the Central Bank of Kenya in July 2020.

BOA Group S.A operates subsidiaries in 18 countries in Africa and 1 subsidiary in Europe (France). Its capital planning for the group of subsidiary banks was disrupted by the COVID -19 Pandemic in 2020; BOA-Kenya included. Therefore, the Group is currently re-evaluating its recapitalization plan for various subsidiaries in line with each country specific needs and economic growth projections.

iii. Lending Activities

The Bank shall continue with lending activities in support of its clientele base while taking cognisant of the capital adequacy ratios and other statutory ratios as per the Banking Act. Continued lending is seen as important to instil market and customer confidence on ability of the Bank and Group to continue financing the economy.

2. Significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(b) Going concern (Continued)

iv. Management Commitment

Management is confident that the steps being taken on provisions and capital increase will enable BOA Kenya be in a stronger position to actively participate in business development and financing of the economy in a stable and consistent manner and will make BOA Kenya more resilient to any shocks in the economy. As at 31 December 2020, the directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the Bank will not be a going concern for at least the next twelve (12) months from the date of this statement.

(c) Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, 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. When measuring the fair value of an asset or a liability, the Bank uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Bank using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g., by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Fair values are categorised into three levels of fair value hierarchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

Level 1 – fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value measurements are derived from inputs other than quoted prices used in Level 1 that are observable for the assets or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 – fair value measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Bank at the end of the reporting period during which the change occurred.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2. Significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(e) Borrowing costs

Borrowing costs, net of any temporary investment income on those borrowings, that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset. The net borrowing cost capitalised is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowings directly attributable to the asset and applying this rate to the borrowing attributable to the asset. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete.

(f) Changes in accounting policies and disclosures

The Bank has initially adopted Definition of a Business (Amendments to IFRS 3) from 1 January 2020. A number of other new standards are also effective from 1 January 2020 that do not have a material effect on the Bank's financial statements. The Bank elected to early adopt Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (the Phase 2 amendments).

2.1.1 Definition of a Business

The Bank applied Definition of a Business (Amendments to IFRS 3) to business combinations whose dates of acquisition are on or after 1 January 2020 in assessing whether it had acquired a business or a group of assets. The amendments do not have a material effect on the Bank's financial statements because the Bank has not acquired any subsidiaries during the year. However, the Bank has amended its accounting policies for acquisitions on or after 1 January 2020.

2.1.2 Interest Rate Benchmark Reform

The Bank applied the Phase 2 amendments retrospectively. However, in accordance with exceptions provided in the Phase 2 amendments, the Bank has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2019. There is no impact on opening equity balances as a result of retrospective application.

The Phase 2 amendments provide practical relief from certain requirements in the standards. These reliefs relate to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. When the basis for determining the contractual cash flows of a financial instrument is changed as a direct consequence of interest rate benchmark reform and is made on an economically equivalent basis, the Phase 2 amendments provide a practical expedient to update the effective interest rate of a financial instrument before applying the existing requirements in the standards. The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform. Finally, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption. The Bank is assessing the impact of the interest rate benchmark reform on its financial statements. The bank applied the reforms in re-measuring the Incremental Borrowing Rate (IBR) under IFRS 16 application of leases.

2. Significant accounting policies (Continued)

2.2 Basis of Consolidation

(i) Business combinations

The Bank accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

From 1 January 2020, in determining whether a particular set of activities and assets is a business, the Bank assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Bank has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

2. Significant accounting policies (Continued)

2.2 Basis of Consolidation (Continued)

(ii) *Foreign currency transactions* (Continued)

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in Other Comprehensive Income (OCI):

— equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI;
— a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
— qualifying cash flow hedges to the extent that the hedges are effective.

(iii) *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to Non-Controlling Interest (NCI).

When a foreign operation is disposed of in its entirety or partially such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Bank disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

2.3 Interest

(i) *Effective interest rate*

Interest income and expense are recognised in profit or loss using the effective interest method. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

— the gross carrying amount of the financial asset; or
— the amortised cost of the financial liability.

2. Significant accounting policies (Continued)

2.3 Interest (Continued)

(i) Effective interest rate (Continued)

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

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

(ii) Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

(iii) Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

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

Securitisation vehicles

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at Fair Value through Other Comprehensive Income (FVOCI);
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk; and
- negative interest on financial liabilities measured at amortised cost.

2. Significant accounting policies (Continued)

2.3 Interest (Continued)

(iii) Calculation of interest income and expense (Continued)

Other interest income presented in the statement of profit or loss and OCI includes interest income on lease receivables.

Interest expense presented in the statement of profit or loss and OCI includes:
- financial liabilities measured at amortised cost;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
- negative interest on financial assets measured at amortised cost; and
- interest expense on lease liabilities.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at Fair Value Through Profit or Loss (FVTPL) are presented in net income and from other financial instruments at FVTPL.

Cash flows related to capitalised interest are presented in the statement of cash flows consistently with interest cash flows that are not capitalised.

2.4 Fees and commission

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

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fee and commission income – including trade finance fees, credit related fees and service-related fees – is recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

2.5 Net trading income

'Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

2.6 Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at FVTPL and also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

2. Significant accounting policies (Continued)

2.7 Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for all equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

2.8 Leases

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

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

(i) Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate (31 December 2020 - 13%) by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

2. Significant accounting policies (Continued)

2.8 Leases (Continued)

(i) Bank acting as a lessee - continued

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

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

From 1 January 2020, where the basis for determining future lease payments changes as required by interest rate benchmark reform, the Bank remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Bank acting as a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

2.9 Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Bank has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and has recognised the related expenses in 'other expenses'.

2. Significant accounting policies (Continued)

2.9 Income tax (Continued)

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Bank has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

2. Significant accounting policies (Continued)

2.10 Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

— the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
— the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

— the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
— the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI).

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

2. Significant accounting policies (Continued)

2.10 Financial assets and financial liabilities (Continued)

(ii) Classification - continued

Business model assessment - continued

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the
- Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Bank's corporate and business banking activities comprise primarily loans to customers that are held for collecting contractual cash flows. Loans in the business banking segment comprise of mortgages, overdrafts, unsecured personal lending.

Certain debt securities are held by the Bank's treasury department in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

Certain other debt securities are held by the Bank Treasury in separate portfolios to meet everyday liquidity needs. The Bank Treasury seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value.

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

Assessment of whether contractual cash flows are Solely Payments of Principal and Interest (SPPI)

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

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

2. Significant accounting policies (Continued)

2.10 Financial assets and financial liabilities (Continued)

(ii) Classification - continued

Assessment of whether contractual cash flows are Solely Payments of Principal and Interest (SPPI) - continued

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

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

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

(iii) Derecognition

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

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

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale- and repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

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

2. Significant accounting policies (Continued)

2.10 Financial assets and financial liabilities (Continued)

(iii) Derecognition - continued

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Bank transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, or other residual interests (retained interests). Retained interests are recognised as investment securities and measured as such.

Financial liabilities

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

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

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

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

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

2. Significant accounting policies (Continued)

2.10 Financial assets and financial liabilities (Continued)

(iv) Modifications of financial assets and financial liabilities - continued

Financial assets - continued

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

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

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

Interest rate benchmark reform (policy applied from 1 January 2020)

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Bank updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e., the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Bank first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Bank applies the policies on accounting for modifications set out above to the additional changes.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously

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

2. Significant accounting policies (Continued)

2.10 Financial assets and financial liabilities (Continued)

(vi) Fair value measurement

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

When one is 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.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure.

Portfolio-level adjustments – e.g., bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

2. Significant accounting policies (Continued)

2.10 Financial assets and financial liabilities (Continued)

(vii) Impairment - continued

No impairment loss is recognised on equity investments.

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

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

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired. Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

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

When discounting future cash flows, the following discount rates are used:

— *financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables*: the original effective interest rate or an approximation thereof;

2. Significant accounting policies (Continued)

2.10 Financial assets and financial liabilities (Continued)

(vii) Impairment - continued

Measurement of ECL - continued

— *lease receivables*: the discount rate used in measuring the lease receivable;
— *undrawn loan commitments*: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
— *financial guarantee contracts issued*: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

Restructured financial assets

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

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

Credit impaired financial assets

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

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

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

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

2. Significant accounting policies (Continued)

2.10 Financial assets and financial liabilities (Continued)

(vii) Impairment - continued

Credit impaired financial assets - continued

- The market's assessment of creditworthiness as reflected in bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

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

Write Off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

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

Financial guarantee contracts held

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

2. Significant accounting policies (Continued)

2.10 Financial assets and financial liabilities (Continued)

(vii) Impairment - continued

Financial guarantee contracts held - continued

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

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

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

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL. If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets' (see Note 28). The Bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

(viii) Designation at fair value through profit or loss

Financial assets

On initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, that would otherwise arise.

Financial liabilities

The Bank has designated certain financial liabilities as at FVTPL in either of the following circumstances: – the liabilities are managed, evaluated and reported internally on a fair value basis; or – the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. Significant accounting policies (Continued)

2.11 Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

2.12 Trading assets and liabilities

'Trading assets and liabilities' are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

2.13 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. All derivatives are measured at fair value in the statement of financial position. The Bank designates certain derivatives held for risk management as well as certain nonderivative financial instruments as hedging instruments in qualifying hedging relationships.

Policy applicable generally to hedging relationships

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. For a cash flow hedge of a forecast transaction, the Bank makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

The Bank normally designates a portion of the cash flows of a financial instrument for cash flow or fair value changes attributable to a benchmark interest rate risk, if the portion is separately identifiable and reliably measurable.

(i) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss. The change in fair value of the hedged item attributable to the hedged risk is recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a CCP by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

2. Significant accounting policies (Continued)

2.13 Derivatives held for risk management purposes and hedge accounting (Continued)

(i) Fair value hedges - continued

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as an adjustment to the recalculated effective interest rate of the item over its remaining life.

On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

(ii) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the hedging reserve is reclassified from OCI to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a CCP by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated. If the hedged cash flows are no longer expected to occur, then the Bank immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight-line basis.

(iii) Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of a derivative or the foreign exchange gains and losses of a non-derivative is recognised in OCI and presented in the translation reserve within equity. The effective portion of the change in fair value of the hedging instrument is computed with reference to the functional currency of the parent entity against whose functional currency the hedged risk is measured. Any ineffective portion of the changes in the fair value of the derivative or foreign exchange gains and losses on the non-derivative is recognised immediately in profit or loss. The amount recognised in OCI is fully or partially reclassified to profit or loss as a reclassification adjustment on disposal or partial disposal of the foreign operation, respectively.

(i) The phase 1 Amendments

If a hedging relationship is directly affected by IBOR reform, then the Bank applies certain exceptions (referred to as 'the Phase 1 amendments') to the general hedge accounting policy. The Bank considers that a hedging relationship is directly affected by IBOR reform if it is subject to the following uncertainty arising from the reform:

2. Significant accounting policies (Continued)

2.13 Derivatives held for risk management purposes and hedge accounting (Continued)

(iii) Fair value hedges - continued

(i) The phase 1 Amendments - continued

- an interest rate benchmark subject to the reform is designated as the hedged risk, regardless of whether the rate is contractually specified; and/or
- the timing or amounts of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument are uncertain.

The Phase 1 amendments to the Bank's policies are as follows.

(a) For the purpose of evaluating whether the hedging relationship is expected to be highly effective (i.e., prospective effectiveness assessment), the Bank assumes that the benchmark interest rate is not altered as a result of IBOR reform.
(b) If the Bank concludes that the actual result of a hedging relationship is outside the range of 80–125% (i.e., retrospective assessment), then the Bank determines whether the hedging relationship continues to qualify for hedge accounting or whether it needs to be discontinued. This includes, for example, determining that the hedge is expected to be highly effective prospectively and that the effectiveness of the hedging relationship can be reliably measured.
(c) For a hedge of a non-contractually specified benchmark portion of interest rate risk, the Bank applies the requirement that the designated portion needs to be a separately identifiable component only at the inception of the hedging relationship.
(d) For a cash flow hedge of a forecast transaction, the Bank assumes that the benchmark interest rate will not be not altered as a result of IBOR reform for the purpose of asserting that the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.
(e) In determining whether a previously designated forecast transaction is no longer expected to occur, the Bank assumes that the hedged interest rate benchmark cash flows will not be altered as a result of IBOR reform.

When the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or – except for item (e) – when the hedging relationship is discontinued, the Bank will cease to apply the respective Phase 1 amendments.

(iv) The Phase 2 amendments (policy applied from 1 January 2020)

The Bank is assessing the impact of the Phase 2 amendments.

When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Bank amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. For this purpose, the hedge designation is amended only to make one or more of the following changes:

- designating an alternative benchmark rate as the hedged risk;
- updating the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;
- updating the description of the hedging instrument; or
- updating the description of how the entity will assess hedge effectiveness.

2. Significant accounting policies (Continued)

2.13 Derivatives held for risk management purposes and hedge accounting (Continued)

(iv) The Phase 2 amendments (policy applied from 1 January 2020) - continued

The Bank amends the description of the hedging instrument only if the following conditions are met:

- it makes a change required by IBOR reform by changing the basis for determining the contractual cash flows of the hedging instrument or using another approach that is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument; and
- the original hedging instrument is not derecognised.

The Bank amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

If changes are made in addition to those changes required by IBOR reform described above, then the Bank first considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Bank amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

Policies specific to non-contractually specified risk portions

When the Bank designates an alternative benchmark rate as a hedged risk and the alternative benchmark rate is a non-contractually specified risk portion that is not separately identifiable at the date it is designated, the Bank deems that the rate meets the separately identifiable criterion if it reasonably expects that the alternative benchmark rate will be separately identifiable within a 24-month period. The 24-month period applies on a rate-by-rate basis and starts from the date when the Bank first designates the alternative benchmark rate as a hedged risk.

If the Bank subsequently expects that a non-contractually specified alternative benchmark rate risk component will not be separately identifiable within the 24-month period, then it discontinues hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate is designated as a non-contractually specified risk portion.

Policies specific to cash flow hedges

When the interest rate benchmark on which the hedged future cash flows had been based is changed as required by IBOR reform, for the purpose of determining whether the hedged future cash flows are expected to occur, the Bank deems that the hedging reserve recognised in OCI for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows will be based.

Other non-trading derivatives

Other non-trading derivatives are recognised on balance sheet at fair value. If a derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

2. Significant accounting policies (Continued)

2.13 Derivatives held for risk management purposes and hedge accounting (Continued)

(iv) The Phase 2 amendments (policy applied from 1 January 2020)- continued

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

2.14 Loans and Advances

The 'loans and advances to banks' caption in the statement of financial position includes loans and advances measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

The 'loans and advances to customers' caption in the statement of financial position includes:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- lease receivables.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the consideration paid is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

2.15 Investment Securities

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

2. Significant accounting policies (Continued)

2.15 Investment Securities (Continued)

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present changes in the fair value of certain investments in equity instruments that are not held for trading in OCI. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Fair value gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

2.16 Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives of property and equipment for the current and comparative periods are as follows:

— Leasehold buildings	1.5%
— IT equipment	10.0%-20.0%
— fixtures and fittings	33.3%
— Motor Vehicles	33.3%

The Right of Use (ROU) asset is depreciated on a straight-line basis to the lifetime of the lease.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2. Significant accounting policies (Continued)

2.17 Intangible assets

Software

Software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate: that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

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

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2.18 Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or Cash Generating Unit's (CGUs).

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Bank's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

2. Significant accounting policies (Continued)

2.18 Impairment of non-financial assets (Continued)

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.

2.19 Deposits debt securities in issue and subordinated debt

Deposits, debt securities in issue and subordinated liabilities are the Bank's sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale-and-repurchase agreement), the consideration received is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities in issue and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs. Subsequently, they are measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at FVTPL.

When the Bank designates a financial liability as at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the Bank assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

— the expected changes in the fair value of the liability related to changes in the credit risk; with
— the impact on profit or loss of expected changes in the fair value of instruments whose characteristics are economically related to the characteristics of the liability.

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

2.20 Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Other loan commitments issued are measured at the sum of (i) the loss allowance determined in accordance with IFRS 9 and (ii) the amount of any fees received, less, if the commitment is unlikely to result in a specific lending arrangement, the cumulative amount of income recognised. Derecognition policies in are applied to loan commitments issued and held.

The Bank has issued no loan commitments that are measured at FVTPL.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

2. Significant accounting policies (Continued)

2.21 Other provisions

Other provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as interest expense.

Restructuring	A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.
Bank Levies	A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

2.22 Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Other long-term employee benefits

The Bank's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Bank can no longer withdraw the offer of those benefits and when the Bank recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

2.23 Share capital, other equity and reserves

(i) Other equity instruments

The Bank classifies instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Bank's other equity instruments are not redeemable by holders and bear an entitlement to coupons at the sole discretion of the board of directors. Accordingly, they are presented within equity. Distributions thereon are recognised in equity. Based on the Bank's assessment of the terms of the instruments, the coupon payments meet the definition of dividends. Therefore, the related tax impacts are recognised in profit or loss in accordance with IAS 12, unless the transactions or events that generated those distributable profits were recognised outside profit or loss.

2. Significant accounting policies (Continued)

2.23 Share capital, other equity and reserves (Continued)

(ii) Share issue costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

2.24 Earnings Per Share (EPS)

The Bank presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

2.25 New Standards, amendments and interpretations in issue but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, except as stated in Note 2 (i)(f), the Bank has not early adopted the new and amended standards in preparing these consolidated financial statements.

The following new and amended standards are not expected to have a significant impact on the Bank's financial statements.

—Interest rate benchmark reform-phase 2 (Amendments to IFRS 9,IAS 39,IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
—Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	1 January 2021
—Onerous contracts: Cost of Fulfilling a Contract (Amendments to IAS 37).	1 January 2022
—Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
—Annual improvements to IFRS standards 2018-2020	1 January 2022
—Reference to Conceptual Framework (Amendments to IFRS 3)	1 January 2023
—Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023
—IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.	1 January 2023
—Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	Available for optional adoption/ effective date deferred indefinitely

3. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

3. Critical accounting estimates and judgements in applying accounting policies (Continued)

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

3.1 Measurement of the expected credit loss allowance

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

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

— Determining the criteria for significant increase in credit risk;
— Choosing the appropriate models and assumptions for the measurement of ECL;
— Establishing the number and relative weightings of forward-looking scenarios for each type of product/ market and associated ECL;
— Establishing of similar financial assets for the purpose of measuring ECL;
— Determining the appropriate business models and assessing the SPPI requirements for financial assets.

3.2 Fair value of financial instruments

For those assets and liabilities measured at fair value, 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. When measuring the fair value of an asset or a liability, the Bank uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Bank using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g., by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Fair values are categorised into three levels of fair value hierarchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

Level 1 – fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value measurements are derived from inputs other than quoted prices used in Level 1 that are observable for the assets or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs). Transfers between levels of the fair value hierarchy are recognised by the Bank at the end of the reporting period during which the change occurred.

3.3 Taxes

Determining the 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.

3. Critical accounting estimates and judgements in applying accounting policies (Continued)

3.4 Leases – extension options

The directors have made a judgement on whether the Bank is reasonably certain to exercise extension option of its leases. Some leases of branch premises contain extension options exercisable by the Bank before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

4. Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The effective management of risk within the stated risk appetite is fundamental to the banking activities of the Bank.

Risk management is at the core of the operating and management structures of the Bank and this involves managing and controlling of risks and in particular avoiding undue concentration of exposures, limiting potential losses from stress events and constraining profit or loss volatility. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations.

The overall responsibility for risk management within the Bank rests with the Board of Directors. Through the risk management structure, the Bank seeks to manage efficiently the core risks i.e credit, liquidity and market risks which arise directly through the Bank's commercial activities. Accountability for risk management resides at all levels within the Bank, from the Executive down through the organisation to each business manager and risk owner.

On a day- to -day basis, risks are managed through a number of management committees. Through this process the Bank monitors compliance with overall risk management policies. The Bank's risk management policies are approved by the Board and they identify, analyse the risks faced by the Bank as well as the appropriate risk limits and controls.

The Bank's Risk Management Committees are responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. Risk Management information is provided on a regular basis to the Board Risk Management and Compliance Committee.

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

4.1 Credit risk

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

With the on-set of COVID-19 Pandemic the Senior Bank management made a decision to reassess on the effect of the Pandemic on the ECL estimation with the intention of making changes to the model to reflect the current economic situation.

The senior Bank management called upon the IFRS 9 consultants who made changes to the IFRS 9 model towards end of the year with the below key assumptions being made:

— Updated macro-economic forecasts in response to COVID-19 in the ECL calculation.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

The bank sources macroeconomic information from BMI Research; a reputable data vendor that sources and forecasts using information from World Bank, International Monetary Fund (IMF), CBK, Economist Intelligence Unit (EIU), Kenya National Bureau of Statistics (KNBS) etc. These sources have invested in statistical modelling tools and procedures that over the years has made them reputable and reliable.

The following macro-economic variables were considered in the modelling:

Macroeconomic variable	Expected Relationship with PDs
GDP: Nominal GDP, USD, % y-o-y	-
GDP: GDP per capita, KES, % y-o-y	-
POPULATION: Population, % y-o-y	-
MONEY SUPPLY: M3, % y-o-y	+
FISCAL: Total revenue, KES, % y-o-y	-
FOREIGN RESERVES: Foreign reserves ex gold, USD, % y-o-y	-
EXCHANGE RATE: KES/USD, eop % y-o-y	+
INFLATION: Consumer price inflation, % y-o-y, eop	+
BALANCE OF PAYMENTS: Goods exports, USD, % y-o-y	-
BALANCE OF PAYMENTS: Goods imports, USD, % y-o-y	-

- The weighting of upside, downside and base case economic scenarios were adjusted to reflect the economic outlook going into the future with a weighting of 20 percent for the upside, 40 percent for the baseline and 40 percent for the downside.
- Management took an assumption that the economic outlook is likely to stabilize in the year 2021 before slowly picking up in the year 2022 onwards.
- The Bank has applied an economic sectoral approach on client stratification with the key sectors being:

  (i) Building and construction
  (ii) Manufacturing
  (iii) Personnel services
  (iv) Trade
  (v) Transport and
  (vi) Others

- The Forward-Looking Information (FLI)'s is then adjusted to reflect the economic outlook before applying the same to the Probability's of Default (PD's).

The Bank relied on the Central Bank of Kenya directive that allowed for restructuring of performing client facilities without having to re-classify the facility to non-performing category thus rebutted the presumption that there had been a significant increase in credit risk for a one-year period to end March 2021. The directive allowed for a payment holidays providing for relief to the clients from short term liquidity constraints. For the period ended 31 December 2020 the bank had restructured a total of KShs. 1,665 million in loans and advances.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.1 Credit Quality Analysis

The following tables set out information about the credit quality of financial assets measured at amortised cost, lease receivables and FVOCI debt investments without taking into account collateral or other credit enhancement. Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 4.1.3.

	Note	12-month PD ranges	2020 Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Balances due from banking institutions						
Normal		1.34	4,165,466	-	-	4,165,466
Less: Loss allowance			(1,054)	-	-	(1,054)
Carrying amount	15		**4,164,412**	-	-	**4,164,412**
Balances due from Group banks						
Normal		1.34	1,766,771	-	-	1,766,771
Less: Loss allowance			(293)	-	-	(293)
Carrying amount	16 (a)		**1,766,478**	-	-	**1,766,478**

	Note	12-month PD ranges	2019 Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Balances due from banking institutions						
Normal		1.34	2,939,162	-	-	2,939,162
Less: Loss allowance			(421)	-	-	(421)
Carrying amount	15		**2,938,741**	-	-	**2,938,741**
Balances due from Group banks						
Normal		1.34	844,744	-	-	844,744
Less: Loss allowance			(514)	-	-	(514)
Carrying amount	16 (a)		**844,230**	-	-	**844,230**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.1 Credit Quality Analysis (Continued)

Loans and advances to customers at amortised cost	Note	12-month PD ranges	2020 Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Normal		1.34	10,540,977	-	-	10,540,977
Watch		23.05	-	2,292,382	-	2,292,382
Substandard		100.00	-	-	402,728	402,728
Doubtful		100.00	-	-	8,150,705	8,150,705
Loss		100.00	-	-	135,757	135,757
Less: Impairment			(54,692)	(249,162)	(6,209,337)	(6,513,191)
Carrying amount	17		**10,486,285**	**2,043,220**	**2,479,853**	**15,009,358**

Loans and advances to customers at amortised cost	Note	12-month PD ranges	2019 Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Normal		1.34	11,530,025	-	-	11,530,025
Watch		23.05	-	1,871,646	-	1,871,646
Substandard		100.00	-	-	782,106	782,106
Doubtful		100.00	-	-	7,848,720	7,848,720
Loss		100.00	-	-	367,519	367,519
Less: Impairment			(108,327)	(292,605)	(6,016,926)	(6,417,858)
Carrying amount	17		**11,421,698**	**1,579,041**	**2,981,419**	**15,982,158**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.1 Credit Quality Analysis (Continued)

	Note	2020 Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Investment securities					
Government bonds and treasury bills					
Rated AAA		8,955,253	-	-	8,955,253
Less: Impairment		(43,283)	-	-	(43,283)
Carrying amount	18(b)	**8,911,970**	**-**	**-**	**8,911,970**

	Note	2019 Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Investment securities					
Government bonds and treasury bills					
Rated AAA		7,300,067	-	-	7,300,067
Less: Impairment		(12,337)	-	-	(12,337)
Carrying amount	18(b)	**7,287,730**	**-**	**-**	**7,287,730**

	2020 Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Outstanding receivables				
Neither past due nor impaired	-	-	-	-
Less: Impairment	-	-	-	-
	-	-	-	-
Carrying amount	-	-	-	-

	2019 Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Outstanding receivables				
Neither past due nor impaired	137,577	-	-	137,577
Less: Impairment	(1,928)	-	-	(1,928)
Carrying amount	**135,649**	**-**	**-**	**135,649**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)
4.1.1 Credit Quality Analysis (Continued)

		2020			
	Note	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Outstanding commitments and contingent liabilities					
Neither past due nor impaired		8,541,321	-	-	8,541,321
Less: Impairment		(14,775)	-	-	(14,775)
Carrying amount	33	**8,526,546**	**-**	**-**	**8,526,546**

		2019			
	Note	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Outstanding commitments and contingent liabilities					
Neither past due nor impaired		6,223,729	-	-	6,223,729
Less: Impairment		(21,586)	-	-	(21,586)
Carrying amount	33	**6,202,143**	**-**	**-**	**6,202,143**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.2 Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	Percentage of exposure that is subject to collateral requirements		
	2020	**2019**	**Principal type of collateral held**
Loans and advances to banks	100	100	Marketable Securities
Loans and advances to retail			
Mortgage	80	80	Residential Property
Secured Term loans	75	75	Lease hold property
New Motor Vehicles	90	90	Personal Vehicle
Overdraft facilities	110	110	Lien on Cash deposit
LC's, guarantees & Acceptances	100	100	Lien on Cash deposit
Loans and advances to Corporate			
Mortgage	80	80	Commercial Property
Secured Term loans	75	75	Lease hold property
New Motor Vehicles	90	90	Commercial Vehicles
Overdraft facilities	110	110	Lien on Cash deposit
LC's, guarantees & Acceptances	100	100	Lien on Cash deposit

4.1.3 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant Increase in Credit Risk (SICR)

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

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

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

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:
— quantitative test based on movement in PD;
— qualitative indicators; and
— a backstop of 30 days past due.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.		
Corporate exposures	**Business Banking exposures**	**All exposures**
- Information obtained during periodic review of customer files – e.g., audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes. - Data from credit reference agencies, press articles, changes in external credit ratings. - Quoted bond and credit default swap (CDS) prices for the borrower where available. - Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	- Internally collected data on customer behaviour - Affordability metrics - External data from credit reference agencies, including industry-standard credit scores.	- Payment record – this includes overdue status as well as a range of variables about payment ratios. - Utilisation of the granted limit. - Requests for and granting of forbearance - Existing and forecast changes in business, financial and economic conditions.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

Credit risk grades (Continued)

The table below provides an indicative mapping of how the Bank's internal credit risk grades relate to PD and, for the wholesale portfolio, to external credit ratings of Moody's Agency.

The wholesale portfolio of the Bank is comprised of loans and advances to banks, public sector entities, sovereigns, corporates and other businesses.		
Grading	12-month weighted-average PD	External rating
Grades A–K (Normal): Low–fair risk	1.34	AAA to B
Grades M–O (Watch): Higher risk	23.05	B to C
Grades R–S: Substandard, doubtful, loss	100.00	Default

The retail portfolios are comprised of mortgage lending and personal loans.

Grading	12-month weighted-average PD
Grades A–K (Normal): Low–fair risk	1.34
Grades M–O (Watch): Higher risk	23.05
Grades R–S: Substandard, doubtful, loss	100.00

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between wholesale and retail.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling:

— the remaining lifetime PD is determined to have increased by more than 20% of the corresponding amount estimated on initial recognition; or,

— if the absolute change is annualised, lifetime PD since initial recognition is greater than 200 basis points.

In addition, irrespective of the relative increase since initial recognition, credit risk of an exposure is deemed not to have increased significantly if its remaining annualised lifetime PD at the reporting date is 20% basis points or less.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

Determining whether credit risk has increased significantly (Continued)

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

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 90 days past due or, for certain types of exposure, more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

- The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2 and 3).

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

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

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

Definition of default (Continued)

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

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

Forward-looking information incorporated in the ECL models

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank formulates three economic scenarios: a base case, which is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario. The central scenario is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasts.

The scenario probability weightings applied in measuring ECL are as follows.

	2020			2019		
As at 31 Dec	Upside	Baseline	Downside	Upside	Baseline	Downside
Scenario probability weighting	20%	40%	40%	20%	50%	30%

The Bank carried out stress testing of the COVID-19 pandemic shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is on the design of the scenarios by a panel of experts that advise the Bank's senior management.

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

The key drivers for credit risk for wholesale portfolios are: GDP growth, labour force, balance of payments, inflation, money supply and interest rates.

The Bank estimates each key driver for credit risk over the active forecast period of three years. This is followed by a period of mean reversion of between two and four years, depending on the product and geographical market

The table below lists the macroeconomic assumptions used in the base, upside and downside scenarios over the ten-year forecast period. The assumptions represent the absolute percentage for interest rates and unemployment rates and year-on-year percentage change for GDP and housing prices.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Forward-looking information incorporated in the ECL models (Continued)

Year	Real GDP growth, % y-o-y	Money Supply M3 % y-o-y	Population % y-o-y	inflation (CPI) % y-o-y	Fiscal Revenue	BoP: Goods imports, USD, % y-o-y
2020	0.9%	9.0%	2.5%	5.2%	4.7%	-7.6%
2021	4.4%	9.0%	2.5%	5.4%	3.9%	6.7%
2022	5.2%	.0%	2.5%	5.7%	10.6%	5.6%
2023	5.4%	9.0%	2.5%	5.8%	10.1%	6.3%
2024	5.0%	9.0%	2.4%	6.0%	8.2%	6.5%
2025	5.7%	9.0%	2.4%	6.2%	8.0%	5.2%
2026	5.4%	9.0%	2.4%	6.0%	7.6%	5.7%
2027	4.5%	9.0%	2.4%	6.0%	7.6%	6.0%
2028	4.7%	9.0%	2.3%	6.0%	7.6%	6.0%
2029	4.5%	9.0%	2.3%	6.0%	7.2%	6.0%
2030	4.5%	9.0%	2.3%	6.0%	6.8%	6.0%

Key:
BoP: Balance of Payments
CPI: Consumer Price Index
GDP: Gross Domestic Product
M3: Broad Money Supply
y-o-y: Year on Year

The Bank has revised its economic forecasts used as an input into ECL as at 31 December 2020 down from 2019 levels due to a slight increase in unemployment and a contracting GDP over the last two quarters of 2020.

The baseline and upside scenario models assume that economic growth peaks by 2023 and maintain approximately flat levels of growth until declining in 2027, when the trough levels occur for all economic assumptions in the central and upside scenarios.

The Central Bank of Kenya is expected to gradually increase interest rates over the next two years as inflation gradually rises, thus allowing the Central Bank of Kenya Authority to maintain a stable interest rate environment in Years 3 to 5.

The upside scenario represents a robust economy powered by low unemployment and a moderate interest rate environment that drives healthy levels of consumption and investment.

The downside scenario represents an economic downturn in Q1 2021 as unemployment rises to and GDP growth declines, partially attributable to international instability and domestic political turmoil. During this time, it is expected that the Central Bank of Kenya will lower interest rates to increase the money supply and encourage lending.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 to 15 years.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Forward-looking information incorporated in the ECL models (Continued)

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 to 15 years.

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

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

— its remaining lifetime PD at the reporting date based on the modified terms; with
— the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

Modified Financial assets

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

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
— its remaining lifetime PD at the reporting date based on the modified terms; with
— the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities) to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities. For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators. Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3. Amounts arising from ECL (Continued)

Measurement of ECL

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

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD.
Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.
The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters

based on the history of recovery rates of claims against defaulted counterparties. The LG models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices.

They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

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

However, for retail overdrafts that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period.

These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level.

This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3 Amounts arising from ECL (Continued)

Loss Allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The basis for determining transfers due to changes in credit risk is set out in our accounting policy.

2020	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Loans and advances to customers at amortised cost				
Balance as at 1 January	86,741	292,605	6,016,926	6,396,272
Transfer to stage 1	13,941	-	(13,941)	-
Transfer to stage 2	(313)	20,113	(19,800)	-
Transfer to stage 3	(464)	(974)	1,438	-
Net remeasurement of loss allowance	-	(564)	(71,146)	(71,710)
New financial assets originated or purchased	19,648	187,216	11,281	218,145
Financial assets that have been derecognised	(61,182)	(492,476)	(1,002,574)	(1,556,232)
Write-offs	-	-	-	-
Foreign exchange and other movements	(3,679)	243,242	1,287,153	1,526,716
Balance as at 31 December	**54,692**	**249,162**	**6,209,337**	**6,513,191**

2019	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Loans and advances to customers at amortised cost				
Balance as at 1 January	58,248	363,925	4,330,906	4,753,079
Transfer to stage 1	10,646	(7,335)	(3,311)	-
Transfer to stage 2	(1,104)	10,256	(9,152)	-
Transfer to stage 3	(4,310)	(88,479)	92,789	-
Net remeasurement of loss allowance	(110,156)	353,801	2,642,843	2,886,488
New financial assets originated or purchased	38,008	130,988	302,262	471,258
Financial assets that have been derecognised	(140,136)	(358,520)	(549,093)	(1,047,749)
Write-offs	(1)	(50)	(682,978)	(683,029)
Foreign exchange and other movements	235,546	(111,981)	(107,340)	16,225
Balance as at 31 December	**86,741**	**292,605**	**6,016,926**	**6,396,272**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3 Amounts arising from ECL (Continued)

	2020 Stage 1 12-month ECL KShs'000	2020 Stage 2 Lifetime ECL KShs'000	2020 Stage 3 Lifetime ECL KShs'000	2020 Total KShs'000
Outstanding commitments and contingent liabilities				
Balance as at 1 January	21,586	-	-	21,586
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	31,113	-	-	31,113
New financial assets originated or purchased	(7,822)	-	-	(7,822)
Financial assets that have been derecognised	(30,102)	-	-	(30,102)
Write-offs	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Balance as at 31 December	**14,775**	**-**	**-**	**14,775**

	2019 Stage 1 12-month ECL KShs'000	2019 Stage 2 Lifetime ECL KShs'000	2019 Stage 3 Lifetime ECL KShs'000	2019 Total KShs'000
Outstanding commitments and contingent liabilities				
Balance as at 1 January	41,879	-	-	41,879
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	2,400	-	-	2,400
New financial assets originated or purchased	4,972	-	-	4,972
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
Foreign exchange and other movements	(27,665)	-	-	(27,665)
Balance as at 31 December	**21,586**	**-**	**-**	**21,586**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3 Amounts arising from ECL (Continued)

Debt investment securities at amortised cost	2020 Total KShs'000	2019 Total KShs'000
Balance as at 1 January	12,337	20,480
Financial assets that have been derecognised	(12,337)	(20,480)
New financial assets originated or purchased	43,283	12,337
Balance as at 31 December	**43,283**	**12,337**

Placements from other banking institutions	2020 Total KShs'000	2019 Total KShs'000
Balance as at 1 January	421	36
Financial assets that have been derecognised	(421)	(36)
New financial assets originated or purchased	1,054	421
Balance as at 31 December	**1,054**	**421**

Balances from Group banks	2020 Total KShs'000	2019 Total KShs'000
Balance as at 1 January	514	1,494
Financial assets that have been derecognised	(514)	(1,494)
New financial assets originated or purchased	293	514
Balance as at 31 December	**293**	**514**

The loss allowance on Outstanding commitments and contingent liabilities, debt investment, placement from other banking institutions and that from Group Bank has been recorded in miscellaneous expenses.

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.3 Amounts arising from ECL (Continued)

Loss Allowance (Continued)

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the 'impairment losses on financial instruments' line item in the statement of profit or loss and other comprehensive income.

	Loans and advances to customers	Outstanding commitments and contingent liabilities	Balances due from Other Banks	Balances due from banking institution	Investment securities	Other assets: receivable balances	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
2020							
Net remeasurement of loss allowance	185,402	14,633		-	-	(1,928)	198,107
New financial assets originated or purchased	218,145	(7,822)	633	(222)	30,946	-	241,680
Total	403,547	6,811	633	(222)	30,946	(1,928)	439,787
Recoveries of amounts previously written off	(9,132)	-	-	-	-	-	(9,132)
Total	**394,415**	**6,811**	**633**	**(222)**	**30,946**	**(1,928)**	**430,655**
2019							
Net remeasurement of loss allowance	1,889,291	44,279	-	-	-	-	1,933,570
New financial assets originated or purchased	480,833	4,972	385	(980)	(8,143)	(836)	476,231
Total	**2,370,124**	**49,251**	**385**	**(980)**	**(8,143)**	**(836)**	**2,409,801**
Recoveries of amounts previously written off	(14,040)	-	-	-	-	-	(14,040)
Total	**2,356,084**	**49,251**	**385**	**(980)**	**(8,143)**	**(836)**	**2,395,761**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.4 Concentration of risks of financial assets with credit exposure

All financial instruments' carrying amounts as per the statement of financial position represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements.

Off balance sheet items carrying amounts represents the maximum exposure to credit risk without taking into account any collateral held or other credit enhancements as disclosed in note 33.

Carrying amounts	2020				2019
By economic sector	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans and advances to customers	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Building and Construction	1,291,234	123,695	1,353,536	2,768,465	2,894,789
Manufacturing	1,265,259	51,783	2,729,387	4,046,429	4,153,098
Personal Services	2,605,048	465,580	984,015	4,054,643	4,465,797
Trade	2,435,431	664,168	2,344,231	5,443,830	5,728,623
Transport and Communication	1,732,133	530,702	762,370	3,025,205	3,241,225
Others	1,211,873	456,454	515,651	2,183,978	1,916,484
Total on balance sheet	**10,540,978**	**2,292,382**	**8,689,190**	**21,522,550**	**22,400,016**
Acceptances and letters of credit	2,340,299	-	-	2,340,299	641,143
Guarantees and performance bonds	6,186,247	-	-	6,186,247	5,561,000
Unutilized lines of Credit	483,124	-	-	483,124	767,893
Outstanding commitments and contingent liabilities	**9,009,670**	**-**	**-**	**9,009,670**	**6,970,036**
	19,550,648	**2,292,382**	**8,689,190**	**30,532,220**	**29,370,052**

Carrying amounts	Note	Balances due from banks Stage 1	Investment securities Stage 1
		KShs'000	KShs'000
Banks (Both Bank and non-Bank)	15,16	5,930,890	-
Government Investment	18(b)	-	8,911,970
Outstanding balances due from banks and investment securities		**5,930,890**	**8,911,970**

4. Financial risk management (Continued)

4.1 Credit risk (Continued)

4.1.5 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and banks, and to industries and countries.

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 Banks of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sublimit covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default. Some other specific control and mitigation measures are outlined below:

(a) Collateral

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

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

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the previous period.

A portion of the Banks financial assets originated by the mortgage business has sufficiently low "loan to value" ratios, which results in a no loss allowance being recognised in accordance with the Banks expected credit loss model. The Bank closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below.

The Loan to Value (LTV) is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

4. Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Risk limit control and mitigation policies (continued)

	2020				2019
	Gross Loans	Impairment Allowance	Carrying amount	Fair value of collateral held	Carrying amount
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Corporate	11,712,314	5,160,780	6,551,534	11,582,082	7,178,202
SME	5,626,131	812,546	4,813,585	17,028,886	5,255,863
Retail	4,184,105	539,866	3,644,239	6,802,534	3,968,415
Total credit impaired assets	**21,522,550**	**6,513,192**	**15,009,358**	**35,413,502**	**16,402,480**

The bank's policy is to dispose of any repossessed collateral on the open market at forced sale value. As at the reporting date, the Bank had possession of the following collateral:

	2020	2019
	KShs'000	KShs'000
Residential property	2,548,607	1,592,865
Motor vehicles	3,520	1,280
Total collateral held	**2,552,127**	**1,594,145**

(b) Lending limits (for derivative and loan books)

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

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

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

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

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

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

4. Financial risk management (Continued)

4.2 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives.

Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

The Bank's liquidity management process, as carried out within the Bank and monitored by the Assets and Liabilities Committee (ALCO) includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

A key measure of liquidity risk is the ratio of net liquid assets to deposit liabilities. The Central Bank of Kenya requires banks to maintain a statutory minimum ratio of 20% of liquid assets to all its deposit liabilities. For this purpose, liquid assets comprise cash and balances with Central Bank of Kenya, net loans and advances with banks, treasury bonds and bills and net balances with banks abroad. Deposit liabilities comprise deposits from customers and other liabilities that have matured or maturing within 91 days.

The Bank also monitors on a regular basis the advances to deposits ratio. This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advance to deposits ratio demonstrates that customer deposits exceed customer loans resulting from the emphasis placed on generating a high level of stable funding from customers.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

4. Financial risk management (Continued)

4.2 Liquidity risk (Continued)

Non-derivative financial liabilities and assets held for managing liquidity risk

Balance at 31 December 2020	Months Up to 1 KShs'000	1 to 3 KShs'000	3 to 12 KShs'000	Years 1 to 5 KShs'000	>5 KShs'000	Total KShs'000
Customer deposits	22,145,230	3,588,123	2,391,274	-	-	28,124,627
Deposits and balances due to banking institutions (Note 26)	97	-	-	-	-	97
Interest payable on deposits and balances due to banking institutions	-	-	-	-	-	-
Amounts due to Group Banks (Note 16 (b))	6,281,547	-	-	-	-	6,281,547
Borrowings (Note 28)	-	-	2,805,270	1,018,595	-	3,823,865
Interest payable on borrowings	-	-	83,241	362,077	-	445,318
Other liabilities (Note 29)	344,950	-	-	-	-	344,950
Other liabilities- lease liabilities (Note 20)	-	-	382	397,029	457,059	854,470
Total financial liabilities (contractual maturity dates)	**28,771,824**	**3,588,123**	**5,280,167**	**1,777,701**	**457,059**	**39,874,874**
Assets held for managing liquidity (contractual maturity dates)	**16,321,870**	**2,073,372**	**2,893,025**	**11,521,150**	**6,087,672**	**38,897,089**

Balance at 31 December 2019	Months Up to 1 KShs'000	1 to 3 KShs'000	3 to 12 KShs'000	Years 1 to 5 KShs'000	>5 KShs'000	Total KShs'000
Customer deposits	26,201,735	4,773,765	2,512,582	2,051	-	33,490,133
Deposits and balances due to banking institutions (Note 26)	1,877	-	-	-	-	1,877
Interest payable on deposits and balances due to banking institutions	-	-	-	-	-	-
Amounts due to Group Banks (Note 16 (b))	3,394,873	-	-	-	-	3,394,873
Interest payable on amounts due to Other Banks	121	-	-	-	-	121
Borrowings (Note 28)	287,903	-	287,903	863,710	-	1,439,516
Interest payable on borrowings	-	-	8,032	78,118	-	86,150
Other liabilities (Note 29)	569,590	-	-	-	-	569,590
Other liabilities- lease liabilities	-	-	208,150	622,667	361,244	1,192,061
Total financial liabilities (contractual maturity dates)	**30,456,099**	**4,773,765**	**3,016,667**	**1,566,546**	**361,244**	**40,174,321**
Assets held for managing liquidity (contractual maturity dates)	**16,469,102**	**2,125,667**	**6,002,015**	**8,316,658**	**4,744,121**	**37,657,563**

4. Financial risk management (Continued)

4.2 Liquidity risk (Continued)

Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with Central Bank;
- Government bonds and other securities that are readily acceptable in repurchase agreement with Central Banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Bank's trading portfolios.

4.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated with the Bank's Treasury and monitored by two teams separately. Regular reports are submitted to the Assets and Liabilities Committee (ALCO), Heads of each business unit and the Board of Directors.

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

Non-trading portfolios primarily arise from the interest rate management of the entity's Retail and Enterprise banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale financial assets.

Overall authority for market risk for both trading and non-trading portfolios is vested in Assets and Liabilities Committee (ALCO). The bank's Risk department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The tables below summarise the Bank's exposure to foreign currency exchange rate risk as at 31 December 2020 and 2019. Included in the table are the Bank's financial instruments categorised by currency:

4. Financial risk management (Continued)

4.3 Market risk (Continued)

Foreign exchange risk (continued)

Balance at 31 December 2020	USD KShs'000	GBP KShs'000	EUR KShs'000	Others KShs'000	Total KShs'000
Assets					
Cash and Balances with Central Bank	5,464,710	146,711	254,483	273	5,866,177
Placements with banks	2,806,505	22,552	226,090	8,673	3,063,820
Amounts due from group companies	558,552	-	1,155,592	1,285	1,715,429
Loans and advances	5,620,920	11,542	458,143	-	6,090,605
Other assets	10,656	1	1,052,328	707	1,063,692
Total financial assets	**14,461,343**	**180,806**	**3,146,636**	**10,938**	**17,799,723**
Liabilities					
Customer deposits	4,733,341	47,896	838,054	1,763	5,621,054
Deposits and balances due to banking institutions	-	-	-	97	97
Amounts due to group banks	4,993,051	-	1,284,632	-	6,277,683
Borrowings	2,805,270	-	-	-	2,805,270
Other liabilities	1,929,680	132,910	5,355	9,416	2,077,361
Total financial liabilities	**14,461,342**	**180,806**	**2,128,041**	**11,276**	**16,781,465**
Net on-balance sheet position	1	-	1,018,595	(338)	1,018,258
Net off-balance sheet position	6,185,239	(131,205)	1,278,272	634,258	7,966,564
Net overall position	**6,185,240**	**(131,205)**	**2,296,867**	**633,920**	**8,984,822**

Balance at 31 December 2019	USD KShs'000	GBP KShs'000	EUR KShs'000	Others KShs'000	Total KShs'000
Assets					
Cash and Balances with Central Bank	493,399	91,812	138,775	208	724,194
Placements with banks	2,195,113	67,770	172,137	3,562	2,438,582
Amounts due from group companies	597,877	-	99,798	823	698,498
Loans and advances	6,980,517	17,061	636,920	1	7,634,499
Other assets	-	1	1,957,836	4,011	1,961,848
Total financial assets	**10,266,906**	**176,644**	**3,005,466**	**8,605**	**13,457,621**
Liabilities					
Customer deposits	5,074,504	61,020	878,806	866	6,015,196
Deposits and balances due to banking institutions	-	-	-	1,877	1,877
Amounts due to group banks	2,896,976	-	264,926	-	3,161,902
Borrowings	-	-	3,396,750	-	3,396,750
Other liabilities	1,639,916	115,621	3,521	5,963	1,765,021
Total financial liabilities	**9,611,396**	**176,641**	**4,544,003**	**8,706**	**14,340,746**
Net on-balance sheet position	655,510	3	(1,538,537)	(101)	(883,125)
Net off-balance sheet position	506,628	(114,394)	2,370,881	590	2,763,705
Net overall position	1,162,138	(114,391)	832,344	489	1,880,580

4. Financial risk management (Continued)

4.3 Market risk (Continued)

Foreign exchange risk (continued)

Foreign exchange risk sensitivity analysis

At 31 December 2020 if the shilling had strengthened or weakened by 5% against major trading currencies, with other variables held constant, the impact on after tax profit or loss / equity would have been as shown below. This analysis is performed on the same basis for 2019.

	2020 KShs'000	2019 KShs'000
+ 5% movement	(35,639)	30,909
- 5% movement	35,639	(30,909)

5% sensitivity rate represents management's assessment of the reasonable possible change in foreign exchange rates.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing and value at risk that may be undertaken, which is monitored daily by Bank Treasury.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts (non-derivatives), categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear any interest rate risk on off balance sheet items.

4. Financial risk management (Continued)

4.3 Market risk (Continued)

Interest rate risk (continued)

Balance at 31 December 2020	Effective interest rate	Month Up to 1 KShs'000	1 to 3 KShs'000	3 to 12 KShs'000	>12 KShs'000	Non-interest Bearing KShs'000	Total KShs'000
Cash and balances with Central Bank (Note 13)	-	-	-	-	-	8,061,820	8,061,820
Investment securities-Amortised cost (Note 18(b))	11.1%	-	608,710	809,699	7,493,561	-	8,911,970
Placements with banks (Note 15)	4.1%	4,164,412	-	-	-	-	4,164,412
Amounts due from group banks (Note 16(a))	2.4%	1,715,533	-	50,945	-	-	1,766,478
Other assets (Note 25)		-	-	-	-	706,447	706,447
Investment securities-FVOCI (Note 18 (a))		-	-	-	-	570,261	570,261
Loans and advances (Note 17)	10.7%	1,397,054	1,464,662	12,147,642	-	-	15,009,358
Total financial assets		**7,276,999**	**2,073,372**	**13,008,286**	**7,493,561**	**9,338,528**	**39,190,746**
Customer deposits (Note 27)	3.3%	22,134,941	3,542,679	2,298,917	-	-	27,976,537
Deposits and balances due to banking institutions (Note 26)	3.7%	97	-	-	-	-	97
Amounts due to group banks (Note 16(b))	3.0%	6,281,547	-	-	-	-	6,281,547
Borrowings (Note 28)	4.0%	-	-	2,805,270	1,018,595	-	3,823,865
Other liabilities (Note 29)	-	-	-	-	-	344,950	344,950
Total financial liabilities		**28,416,585**	**3,542,679**	**5,104,187**	**1,018,595**	**344,950**	**38,426,996**
Interest sensitivity gap		(21,139,586)	(1,469,307)	7,904,099	6,474,966	8,993,578	763,750

4. Financial risk management (Continued)

4.3 Market risk (Continued)

Interest rate risk (continued)

Balance at 31 December 2019	Effective interest rate	Up to 1 Month KShs'000	1 to 3 Month KShs'000	3 to 12 Month KShs'000	>12 Month KShs'000	Non-interest Bearing KShs'000	Total KShs'000
Cash and balances with Central Bank (Note 13)	-	-	-	-	-	9,250,628	9,250,628
Investment securities-Amortised cost (Note 18(b))	8.76%	-	1,570,057	3,330,580	2,387,093	-	7,287,730
Placements with banks (Note 15)	3.36%	2,938,741	-	-	-	-	2,938,741
Amounts due from group banks (Note 16(a))	2.66%	109,847	-	734,383	-	-	844,230
Other assets (Note 25)	-	-	-	-	-	1,012,686	1,012,686
Investment securities-FVOCI (Note 18 (a))	-	-	-	-	-	552,931	552,931
Loans and advances (Note 17)	10.7%	2,815,810	555,610	12,610,738	-	-	15,982,158
Total financial assets		**5,864,398**	**2,125,667**	**16,675,701**	**2,387,093**	**10,816,245**	**37,869,104**
Customer deposits (Note 27)	3.7%	26,216,803	4,829,509	2,604,528	2,194	-	33,653,034
Deposits and balances due to banking institutions (Note 26)	4.8%	1,877	-	-	-	-	1,877
Amounts due to group banks (Note 16(b))	2.8%	3,394,873	-	-	-	-	3,394,873
Borrowings (Note 28)	5.58%	287,903	-	287,903	863,710	-	1,439,516
Other liabilities (Note 29)	-	-	-	-	-	569,590	569,590
Total financial liabilities		**29,901,456**	**4,829,509**	**2,892,431**	**865,904**	**569,590**	**39,058,890**
Interest sensitivity gap		(24,037,058)	(2,703,842)	13,783,270	1,521,189	10,246,655	(1,189,786)

4. Financial risk management (Continued)

4.3 Market risk (Continued)

Interest rate risk (continued)

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.

Interest rate risk sensitivity analysis

At 31 December 2020 if interest rates were to increase or decrease by 2.5%, with other variables held constant, the impact on after tax profit or loss / equity would have been as shown below. This analysis is performed on the same basis for 2019.

	2020 KShs'000	2019 KShs'000
+ 2.5% movement	144,022	200,138
- 2.5% movement	(144,022)	(200,138)

4. Financial risk management (Continued)

4.4 Fair value of financial instruments

(a) Classification and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest):

	Note	Carrying value				Fair value hierarchy			
		FVOCI	FVTPL	Amortised cost	Total	Level 1	Level 2	Level 3	Total
		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Balance at 31 December 2020									
Financial assets measured at fair value									
Derivative assets held for risk management	14	-	-	-	-	-	-	-	-
Investment securities - FVOCI	18 (a)	570,261	-	-	570,261	-	-	570,261	570,261
Investments in government securities	18 (b)	502,284	-	-	502,284			502,284	502,284
		1,072,545	**-**	**-**	**1,072,545**	**-**	**-**	**1,072,545**	**1,072,545**
Financial assets not measured at fair value									
Cash and balances with Central bank	13	-	-	8,061,820	**8,061,820**	-	8,061,820	-	**8,061,820**
Due from other banking institutions	15	-	-	4,164,412	**4,164,412**	-	4,164,412	-	**4,164,412**
Investments in government securities	18 (b)	-	-	8,409,686	**8,409,686**	-	8,358,201	-	**8,358,201**
Loans and advances to customers	17	-	-	15,009,358	**15,009,358**	-	15,009,358	-	**15,009,358**
Other Assets	25			706,447	**706,447**	-	706,447	-	**706,447**
Due from group banks	16 (a)	-	-	1,766,478	**1,766,478**	-	1,766,478	-	**1,766,478**
		502,284	**-**	**38,118,201**	**38,620,485**	**-**	**38,569,000**	**-**	**38,569,000**
Total financial assets		**1,072,545**	**-**	**38,118,201**	**39,190,746**	**-**	**38,569,000**	**570,261**	**39,139,261**
Financial liabilities measured at fair value									
Derivative assets held for risk management	14	-	342,685	-	342,685		342,685	-	342,685
Financial liabilities not measured at fair value									
Customer deposits	27	-	-	27,976,537	27,976,537	-	27,976,537	-	27,976,537
Due to other banking institutions	26	-	-	97	97	-	97	-	97
Due to group banks	16 (b)	-	-	6,281,547	6,281,547	-	6,281,547	-	6,281,547
Borrowings	28	-	-	3,823,865	3,823,865	-	3,822,857	-	3,822,857
Other liabilities – Bills payable	29	-	-	344,950	**344,950**	-	344,950	-	**344,950**
Total financial liabilities		**-**	**342,685**	**38,426,996**	**38,769,681**	**-**	**38,768,673**	**-**	**38,768,673**

4. Financial risk management (Continued)

4.4 Fair value of financial instruments (Continued)

(a) Classification and fair values (Continued)

	Note	Carrying value				Fair value hierarchy			
		FVOCI KShs'000	FVTPL KShs'000	Amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Balance at 31 December 2019									
Financial assets measured at fair value									
Derivative assets held for risk management	14	-	212,110	-	212,110	-	212,110	-	212,110
Investment securities - FVOCI	18 (a)	552,931	-	-	552,931	-	-	552,931	**552,931**
		552,931	**212,110**	-	**765,041**	-	**212,110**	**552,931**	**765,041**
Financial assets not measured at fair value									
Cash and balances with Central bank	13	-	-	9,250,628	**9,250,628**	-	9,250,628	-	**9,250,628**
Due from other banking institutions	15	-	-	2,938,741	**2,938,741**	-	2,938,741	-	**2,938,741**
Investments in government securities	18 (b)	-	-	7,287,730	**7,287,730**	-	7,242,914	-	**7,242,914**
Loans and advances to customers	17	-	-	15,982,158	**15,982,158**	-	15,982,158	-	**15,982,158**
Other Assets	25			1,012,686	**1,012,686**	-	1,012,686	-	**1,012,686**
Due from group banks	16 (a)	-	-	844,230	**844,230**	-	844,230	-	**844,230**
		-	-	**37,316,173**	**37,316,173**	-	**37,271,357**	-	**37,271,357**
Total financial assets		**552,931**	**212,110**	**37,316,173**	**38,081,214**	-	**37,483,467**	**552,931**	**38,036,398**
Financial liabilities not measured at fair value									
Customer deposits	27	-	-	33,327,232	**33,327,232**	-	33,327,232	-	**33,327,232**
Due to other banking institutions	26	-	-	1,877	**1,877**	-	1,877	-	**1,877**
Due to group banks	16 (b)	-	-	3,394,873	**3,394,873**	-	3,394,873	-	**3,394,873**
Borrowings	28	-	-	1,439,516	**1,439,516**	-	1,159,940	-	**1,159,940**
Other liabilities – Bills payable	29	-	-	569,590	**569,590**	-	568,151	-	**568,151**
Total financial liabilities		-	-	**38,733,088**	**38,733,088**	-	38,452,073	-	**38,452,073**

4. Financial risk management (Continued)

4.4 Fair value of financial instruments (Continued)

(b) Measurement of fair values

Financial instruments measured at fair value

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Nairobi Security Exchange) and exchanges traded derivatives like futures (for example, Nasdaq).

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The following sets out the Bank's basis of establishing fair value of the financial instruments:

Cash and balances with Central Bank of Kenya

The fair value of cash and bank balances with the Central Bank of Kenya approximates their carrying amount.

Deposits and advances to banks

Deposits and advances to banks include inter-bank placements and items in the course of collection.
The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining term to maturity. All loans and advances to banks are classified as level 2 under the fair value hierarchy table.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates. Expected cash flows are discounted at current market rates to determine fair value for low interest loans. A substantial proportion of loans and advances reprice within 12 months and hence the carrying amount is a good proxy of the fair value.

4. Financial risk management (Continued)

4.4 Fair value of financial instruments (Continued)

(b) Measurement of fair values (continued)

Unquoted equity securities

These comprise investment securities held at FVOCI. The fair value for these assets is estimated using market prices and earnings multiples of quoted securities of comparable companies.

Investments in government securities

Investments in government securities are measured at amortised cost using the effective interest method. The estimated fair value represents the discounted amount of future cash flows expected to be received.

Deposits from banks and customers

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market.

A substantial proportion of deposits mature within 6 months and hence the carrying amount is a good proxy of the fair value.

4.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

- to comply with the capital requirements set by the 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.

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

The Central Bank of Kenya requires each bank to: (a) hold the minimum level of regulatory capital of KShs 1 Billion; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10.5%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items.

The bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (core capital): share capital, share premium, plus retained earnings.
- Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of the credit risk associated with – each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

4. Financial risk management (Continued)

4.5 Capital management (Continued)

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2020 and 2019. In 2020, the Bank was compliant with all its capital ratios except core capital to deposits ratio and investment in financial institutions ratios as outlined below.

	2020 KShs'000	2019 KShs'000
Tier 1 capital (Core capital)		
Share capital	7,927,449	6,404,949
Share premium	1,980,356	1,980,356
Retained earnings	(4,723,886)	(4,146,484)
Investment in equity	(568,073)	(550,743)
Deferred tax asset[1]	(2,370,272)	(2,177,512)
	2,245,574	**1,510,566**
Tier 2 capital		
Subordinated debt[2]	971,616	840,037
Statutory reserves	266,631	306,822
	1,238,247	**1,146,859**
Total regulatory capital	**3,482,821**	**2,657,425**
Risk weighted assets		
On balance sheet- Credit risk	16,392,677	17,713,753
Off balance sheet- Credit risk	1,672,483	2,313,428
Market and Operational risk	3,265,347	4,518,606
Total risk weighted assets	**21,330,507**	**24,545,787**
Deposit liabilities	34,258,084	36,496,309
Capital ratios		
Core Capital/total deposit liabilities (CBK minimum 8%) (2019: 8%)	6.6%	4.1%
Core Capital/Total risk weighted assets (CBK Minimum 10.5%) (2019: 10.5%)	10.5%	6.2%
Total Regulatory Capital/Total risk weighted assets (CBK minimum 14.5%) (2019: 14.5%)	16.3%	10.8%
Investment in Land and Buildings ratio		
Investment in land and buildings/Core capital (CBK maximum 20% (2019: 20%)	44.3%	65.8%
Investment in Financial Institutions ratio		
Investment in financial institutions/Core capital (CBK maximum 25% (2019: 25%)	25.3%	36.5%
Single Borrower Limit/ Core Capital (CBK maximum 25% (2019: 25%)	31.5%	77.5%

[1] Deferred tax assets (DTAs) are deducted from Tier 1 capital as per the 2013 Central Bank of Kenya Prudential Guidelines (CBK/PG/003). DTAs relating to temporary differences such as allowance for credit losses can only be recognized up to a limit of 10% of the institution's core capital.

[2] Subordinated Debt includes issued and paid-in unsecured debt instruments having a maturity of at least five years. Principal should be re-payable after at least five years as per the 2013 Central Bank of Kenya Prudential Guidelines (CBK/PG/003).

5. Interest income

	2020 KShs'000	2019 KShs'000
Loans and advances to customers	1,641,951	2,238,617
Government and other securities	897,291	604,655
Balances with other banking institutions	145,537	78,268
Other	4,419	4,660
	2,689,198	**2,926,200**

Included in interest income on loans and advances to customers is KShs 267 million in 2020 interest accrued on impaired loans and advances (KShs 372 million in 2019).

6. Interest expense

	2020 KShs'000	2019 KShs'000
Customer deposits	1,004,293	1,173,019
Deposits by banks	103,891	113,176
Subordinated debt and borrowings	240,766	87,620
Interest expense on lease liabilities (Note 20)	45,416	76,850
Swaps and forward contracts	294,397	478,428
	1,688,763	**1,929,093**

7. Net fee and commission income

	2020 KShs'000	2019 KShs'000
Trade finance related fees and commissions	69,615	80,522
Credit related fees and commissions	131,471	130,312
Service-related fees and commissions	319,250	330,073
Fee and commission income	520,336	540,907
Fees and commission paid	(5,421)	(6,982)
Net fee and commission income	**514,915**	**533,925**

Fees and commissions income from contracts with customers in scope of IFRS 15 have been disaggregated by major type of services. They are measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms and the related revenue recognition policies.

Type of service	Nature of timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Trade finance service	The Bank provides trade finance services to corporate, SME and retail customers. Trade finance fees are charged when the transaction takes place.	Revenue from trade finance is recognized at a point in time when the services are provided.
Credit related services	The Bank provides credit related services including loan administration, securities underwriting and provision of overdraft facilities. Fees from term loans are charged once the transaction takes place. Fees on overdrafts are charged annually at the beginning of the year on renewal of credit lines.	Revenue from credit related services is recognized over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

7. Net fee and commission income (Continued)

Account services	The Bank provides banking services including account management, execution of client transactions, debit card and other account services. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail, SME and corporate clients with approvals from the Central Bank of Kenya (CBK). Transaction based fees are charged to the customer's account when the transaction takes place.	Revenue from account services is recognized at a point in time when the services are provided. Revenue related to transactions is recognized at the point in time when the transaction takes place.

8. Other operating loss/(income)

	2020 KShs'000	2019 KShs'000
Dividends received	13,283	-
(Loss)/ gain on sale of property and equipment	(15,887)	9,142
Rental income	18,475	20,348
Impairment of non-current assets held for sale (Note 21)	-	(29,746)
Loss from sale of shares in associate (Note 19)	-	(149,383)
Foreign currency recycled through profit and loss	-	(180,255)
Other expenses	3,935	(83,191)
	19,806	**(413,085)**

Rental income relates to income received from leases on the fourth and fifth floors of BOA House.

9. Staff costs

	2020 KShs'000	2019 KShs'000
Salaries and wages	817,173	833,584
Retirement benefit costs		
– Defined contribution pension scheme	58,515	56,211
– National Social Security Fund	1,044	1,097
Staff medical costs	79,377	78,166
Staff training costs	7,916	30,203
Other staff costs	40,524	28,052
	1,004,549	**1,027,313**

The number of employees of the Bank as at 31 December 2020 was 414 (2019: 445). Other staff costs comprise of staff welfare costs, leave provisions, performance-based incentives among others.

10. Depreciation and amortisation

	2020 KShs'000	2019 KShs'000
Depreciation of property and equipment (Note 21)	169,380	168,738
Amortisation of intangible assets (Note 23)	51,689	29,819
Right-of-use asset depreciation (Note 21)	175,516	194,701
	396,585	**393,258**

11. Other operating costs	2020 KShs'000	2019 KShs'000
Directors' expenses	19,800	26,918
Auditor's remuneration	9,349	7,841
Marketing and advertisement costs	35,057	44,222
Property occupancy costs	150,752	173,066
Software subscriptions and licence fees	148,181	147,085
Computer hardware maintenance	13,217	12,765
Depositors' protection fund premiums	51,495	52,003
Communication costs	60,716	69,008
Operating lease rentals	8,097	11,668
Office administrative costs	132,938	360,786
Other costs*	227,777	256,370
	857,379	**1,161,732**

*Other costs mainly consist of BOA Group recharges (see Note 16 (d)), professional fees, operational losses, transport costs, and stationery costs.

12. Taxation	2020 KShs'000	2019 KShs'000
Current income tax:		
Current income tax	-	-
Deferred tax:		
Prior year underprovision (Note 24)	(102,236)	-
Deferred tax movement (Note 24)	(184,168)	(889,838)
	(286,404)	**(889,838)**

The effective rax rate (ETR) for the year ended 31 December 2020 is negative 42.1% (2019: positive 30.4%).

Current income tax (recoverable) /payable	2020 KShs'000	2019 KShs'000
Balance at 1 January	(438,004)	(438,004)
Charge for the year	-	-
Tax paid		-
Balance at 31 December	(438,004)	(438,004)

The tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2020	2019
(Loss)/profit before income tax	(679,869)	(2,929,676)
Tax calculated at the statutory income tax rate of 30% (2019: 30%)	(203,961)	(878,903)
Tax effect of:		
Income not subject to tax:		
Share of income from associate	-	(81,106)
Other income	(26,716)	(11,776)
Expenses not deductible for tax purposes	46,509	81,947
Prior year underprovision of deferred tax	(102,236)	-
Income tax (credit)/expense	**(286,404)**	**(889,838)**

13. Cash and balances with Central Bank

	2020 KShs'000	2019 KShs'000
Cash in hand	838,206	713,298
Balances with Central Bank:		
Cash reserve ratio	1,157,670	1,714,531
Other current accounts	6,065,944	6,822,799
	8,061,820	**9,250,628**

The cash reserve ratio with Central Bank of Kenya (CBK) is non-interest earning and is based on the value of deposits as adjusted for CBK requirements. At 31 December 2020, the cash reserve ratio requirement was 4.25% of eligible deposits (2019: 5.25%). The Bank is free to deviate from the 5.25% requirement on any given day, but not to fall below 3%, provided that the overall average for the month will be at least 5.25%.

14. Derivative assets and liabilities held for risk management

	2020 KShs'000	2019 KShs'000
Interest rate derivative contracts	36,047	42,860
Forward exchange contracts	(378,732)	169,250
	(342,685)	**212,110**

The types of derivatives used by the bank are set out below. The table analyses the notional principal amounts and the positive (assets) and negative (liabilities) fair values of the derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

	2020		
	Notional principal amounts KShs'000	Assets KShs'000	Liabilities KShs'000
Interest rate derivative contracts	2,243,066	2,348,741	(2,312,694)
Forward exchange contracts	11,525,746	14,303,201	(14,682,030)
	13,768,812	**16,651,942**	**(16,994,724)**

	2019		
	Notional principal amounts KShs'000	Assets KShs'000	Liabilities KShs'000
Interest rate derivative contracts	1,430,378	2,495,478	(2,452,618)
Forward exchange contracts	19,192,062	22,062,096	(21,892,846)
	20,622,440	**24,557,574**	**(24,345,464)**

15. Due from other banking institutions

	2020 KShs'000	2019 KShs'000
Placements	1,755,158	601,488
Current account balances due from other banks	2,409,254	2,337,253
	4,164,412	**2,938,741**
Maturing within 90 days	**4,164,412**	**2,938,741**

16. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one-party controls both. The Bank is controlled by BOA Group S.A. incorporated in Luxembourg with its ultimate parent being BMCE Bank incorporated in Morocco. There are other companies which are related to Bank of Africa Kenya Limited through common shareholdings or common directorships.

In the normal course of business, current accounts are operated and placement of foreign currency balances are made with the parent company and other Bank companies at interest rates in line with the market. The relevant balances are shown below:

(a) Amounts due from Group Banks

	2020 KShs'000	2019 KShs'000
Bank of Africa Uganda	55,534	72,885
Bank of Africa Tanzania	242	400
Bank of Africa France	375,490	99,323
Bank of Africa Ghana	327,868	518,254
Bank of Africa Madagascar	50,945	143,745
BMCE International	590,960	9,303
BMCE Bank Banque Offshore	3	3
BMCE France	70,291	-
Bank of Africa Togo	185,367	-
Bank of Africa Rwanda	109,778	317
	1,766,478	**844,230**
Maturing within 90 days	1,715,533	109,847
Maturing after 90 days	50,945	734,383
	1,766,478	**844,230**
Placements	488,159	734,383
Current account balance	1,278,319	109,847
	1,766,478	**844,230**
Interest income earned on the above	23,583	16,119
Ledger fees earned on the above	1,808	2,147

16. Related party transactions (Continued)

(b) Amounts due to Group Banks

	2020 KShs'000	2019 KShs'000
Bank of Africa Madagascar	3,617,730	1,751,635
Bank of Africa Uganda	3,050	227,862
Bank of Africa Tanzania	96	2,425
Banque de Credit de Bujumbura	60,393	24,992
Bank of Africa RDC	419	132
Bank of Africa Ghana	3,532	3,161
Bank of Africa Togo	219,684	1,292,435
Bank of Africa Niger	155,920	42,541
Bank of Africa France	148,474	19,193
Bank of Africa Mer Rouge	2,065,280	28,375
Bank of Africa Rwanda	6,926	2,122
Medi Capital Bank London	43	-
	6,281,547	**3,394,873**
Maturing within 90 days	6,281,547	3,394,873
Interest expense incurred on the above	81,368	32,432

(c) Investments in Group related companies

	2020 KShs'000	2019 KShs'000
Bank of Africa Tanzania (Note 18 (a))	394,680	383,484
Bank of Africa Uganda (Note 18 (a))	165,907	159,447
Bank of Africa France (Note 18 (a))	7,486	7,812
	568,073	**550,743**

(d) Expenses incurred within the BOA Group

	2020 KShs'000	2019 KShs'000
Technical assistance fees paid to African Financial Holdings (AFH)	141,530	132,036
Information technology fees paid to African Information Services and Software Associated (AISSA)	57,031	45,423
	198,561	**177,459**

(e) Loans to key management and directors

	2020 KShs'000	2019 KShs'000
Key management (excluding directors)	50,181	68,268
Directors	-	10,962

Advances to customers as at 31 December 2020 includes loans to key management amounting to KShs 50 million (2019: KShs 68 million).

There were no loans to directors as at 31 December 2020 (2019: KShs 11 million).

	2020 KShs'000	2019 KShs'000
Interest income earned on loans to key management	3,376	3,413

(f) Key management compensation

	2020 KShs'000	2019 KShs'000
Salaries and other short-term employment benefits	134,886	128,764

16. Related party transactions (Continued)

(g) Directors' remuneration	2020 KShs'000	2019 KShs'000
Salaries to executive directors (included in key management compensation above)	35,056	36,850
Compensation to non-executive directors	15,232	16,733
	50,288	**53,583**

(h) Subordinated debt and borrowings

The disclosures on the subordinated debt from BoA Group S.A. and borrowings from BOA Mer Rouge are included in Note 28.

17. Loans and advances to customers

	2020 KShs'000 Amortised cost	2019 KShs'000 Amortised cost
Overdrafts	6,635,852	6,487,051
Personal loans	1,876,694	2,589,211
Mortgages	2,886,687	2,983,215
Commercial loans	9,160,360	9,016,700
Discounted bills	962,956	1,323,839
Gross loans and advances	**21,522,549**	**22,400,016**
Less: Impairment loss allowance		
Stage 1 ECL allowance	(54,692)	(108,327)
Stage 2 ECL allowance	(249,162)	(292,605)
Stage 3 ECL allowance	(6,209,337)	(6,016,926)
Total impairment	(6,513,191)	(6,417,858)
Net loans and advances	**15,009,358**	**15,982,158**
Weighted average effective interest rate	10.18%	10.72%

31 December 2020

Loss allowance	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Balance as at 1 January	108,327	292,605	6,016,926	6,417,858
Changes in the loss allowance				
– Transfer to stage 1	13,941	-	(13,941)	-
– Transfer to stage 2	(313)	20,113	(19,800)	-
– Transfer to stage 3	(464)	(974)	1,438	-
– Net remeasurement of loss allowance	-	(564)	(71,146)	(71,710)
New financial assets originated or purchased	19,648	187,216	11,281	218,145
Financial assets that have been derecognised	(82,768)	(492,476)	(1,002,574)	(1,577,818)
Foreign exchange and other movements	(3,679)	243,242	1,287,153	1,526,716
Loss allowance as at 31 December	**54,692**	**249,162**	**6,209,337**	**6,513,191**

17. Loans and advances to customers (Continued)

31 December 2019

Loss allowance	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Balance as at 1 January	**100,127**	**363,925**	**4,330,906**	**4,794,958**
Changes in the loss allowance				
– Transfer to stage 1	10,646	(7,335)	(3,311)	-
– Transfer to stage 2	(1,104)	10,256	(9,152)	-
– Transfer to stage 3	(4,310)	(88,479)	92,789	-
– Write-offs	(1)	(50)	(682,978)	(683,029)
Net remeasurement of loss allowance	(110,156)	353,801	2,642,843	2,886,488
New financial assets originated or purchased	38,008	130,988	302,262	471,258
Financial assets that have been derecognised	(140,136)	(358,520)	(549,093)	(1,047,749)
Foreign exchange and other movements	215,253	(111,981)	(107,340)	(4,068)
Loss allowance as at 31 December	**108,327**	**292,605**	**6,016,926**	**6,417,858**

Movements in provisions for impairment of loans and advances are as follows:

Charge to profit or loss:

	2020 KShs'000	2019 KShs'000
Net increase/(decrease) in impairment loss allowance:		
Net remeasurement of loss allowance	410,358	2,419,375
Recoveries of loans and advances previously written off	(9,132)	(14,040)
Net impairment charged to profit or loss	**401,226**	**2,405,335**

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2020 was KShs 8,689 million (2019: KShs 8,998 million).

18. Investment securities

(a) Unquoted equity securities

	2020 KShs'000 FVOCI	2019 KShs'000 FVOCI
1 January	552,931	283,027
Derecognition of associate and recognition of investment securities (Note 19)	-	200,159
Gain on fair value of investment securities	17,330	69,745
31 December	**570,261**	**552,931**

2020: **FVOCI:**	BOA Uganda KShs'000	BOA Tanzania KShs'000	BOA France KShs'000	Swift shares KShs'000	Total KShs'000
Balance at 1 January 2020	159,447	383,484	7,812	2,188	552,931
Changes in fair value	6,460	11,196	(326)	-	17,330
Balance at 31 December 2020	**165,907**	**394,680**	**7,486**	**2,188**	**570,261**

18. Investment securities (Continued)

2019: FVOCI:	BOA Uganda KShs'000	BOA Tanzania KShs'000	BOA France KShs'000	Swift shares KShs'000	Total KShs'000
Balance at 1 January 2019	-	273,789	7,050	2,188	283,027
Derecognition of associate and recognition of investment securities (Note 19)	200,159	-	-	-	200,159
Changes in fair value	(40,712)	109,695	762	-	69,745
Balance at 31 December 2019	159,447	383,484	7,812	2,188	552,931

The Bank has used the market approach to determine the fair value of its equity investments as per IFRS 13 that defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

(b) Bills and bonds

	2020 KShs'000	2019 KShs'000
Corporate bonds at amortised cost	-	-
Treasury bills at amortised cost	1,266,112	3,169,112
Treasury bonds at amortised cost	7,143,574	4,118,618
Treasury bonds at FVOCI	502,284	-
	8,911,970	**7,287,730**
Maturing within 90 days of acquisition	608,710	1,570,057
Maturing after 90 days of acquisition	8,303,260	5,717,673
	8,911,970	**7,287,730**
Weighted average effective interest rate:		
Treasury bills	8.20%	9.85%
Treasury bonds at amortised costs	8.90%	7.96%
Treasury bonds at FVOCI	11.70%	-

The unamortised premium on treasury bonds as at 31 December 2020 was KShs. 303 million (2019: KShs 224 million).

19. Investment in associate company

	2020 KShs'000	2019 KShs'000
At 1 January	-	1,311,749
Current year share of profit	-	241,371
Prior year understated share of profit	-	28,983
Dividends received	-	(78,536)
Sale of investment securities	-	(1,154,025)
Loss from sale of shares in associates (Note 8)	-	(149,383)
Derecognition of associate and recognition of investment (Note 18)	-	(200,159)
	-	-

19. Investment in associate companies (Continued)

The Bank disposed of its investment in BOA Uganda and no longer considers BOA Uganda an associate (see Note 18 (a)). The Associate has share capital consisting solely of ordinary shares, which are held directly by the Bank. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measurement Method
Bank of Africa- Uganda	Uganda	2020: 5.9% (2019: 5.9%)	Banking services	Equity

Summarised balance sheet	**2020 KShs'000**	**2019 KShs'000**
Assets		
Cash and balances with banks	-	4,881,348
Government securities – amortised cost (2020)/ HTM (2019)	-	4,422,523
Loans and advances to customers	-	10,746,214
Other assets	-	1,703,541
Total assets	**-**	**21,753,626**
Liabilities		
Customer deposits	-	15,361,632
Deposits from other banks	-	2,113,361
Other liabilities	-	901,266
Total liabilities	**-**	**18,376,259**
Net assets	**-**	**3,377,367**

Summarised income statement		
Total operating income	-	2,453,708
Total operating expenses	-	(1,795,529)
Profit before income tax	-	658,179
Income tax charge	-	(99,966)
Profit for the year		**558,213**

Reconciliation of summarised financial information

	2020 KShs'000	**2019 KShs'000**
Opening net assets	-	3,033,648
Profit for the period	-	558,213
Exchange differences	-	(214,494)
Closing net assets	**-**	**3,377,367**
Interest in associate (2019: 43.24%)	-	1,460,373
Carrying value in associates	-	1,460,373
Difference	-	-

20. Leases

20.1 Leases as lessee

The Bank leases a number of branch and office premises. The leases typically run for a period of 6 years, with some leases carrying an option to renew the lease after that date. For some leases, payments are renegotiated after expiry to reflect market rentals. Some leases provide for additional rent payments (rent escalation) that are based on changes in local price indices.

The Bank also leases IT equipment with contract terms of one year. These leases are short-term and/or leases of low-value items. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases.

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

20.1.1 Right-of-Use Assets

Right-of-use assets relate to leased branch and office premises that are presented within property and equipment.

	Branch & Office premise 2020	Branch & Office premise 2019 KShs'000
Balance 1 January 2020 (Note 21)	830,480	1,025,181
Depreciation charge for the year (Note 21)	(175,516)	(194,701)
Additions	12,058	-
Cancellations	(106,453)	-
Balance as at 31 December	**560,569**	**830,480**

At 31 December 2020, the future minimum lease payments under non-cancellable operating leases were payable as follows:

Maturity analysis – Contractual undiscounted cash flows

	KShs'000	KShs'000
Less than one year	382	208,150
Between one and five years	397,029	622,667
More than five years	457,059	361,244
Total undiscounted lease liabilities at 31 December	**854,470**	**1,192,061**

20.1.2 Amounts recognised in profit or loss

2020-Leases under IFRS 16	**2020 KShs'000**	**2019 KShs'000**
Interest expense on lease liabilities (Note 6)	45,416	76,850
Expense relating to short-term leases	-	-
Expenses relating to leases of low value assets, excluding short term leases of low value assets	**8,954**	**8,260**

20. Leases (Continued)

Amounts recognised in statement of cash flows

	2020 KShs'000	2019 KShs'000
Total cash outflows for leases	206,161	203,175

20.1.3 Extension Options

Some leases of branch premises contain extension options exercisable by the Bank before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

The Bank has estimated that the potential future lease payments, should it exercise the extension options, would result in an increase in lease liability of KShs 115 million.

20.2 Leases as lessor

20.2.1 Finance Lease

The Bank does not hold any finance leases in its capacity as a lessor.

20.2.2 Operating Lease

The Bank leases out its building property. The Bank has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 20 sets out information about the operating leases of property and equipment.

Rental income recognised by the Bank during the year ended 31 December 2020 was KShs 18.5 million (2019 KShs 20 million).

21. Property and equipment

2020:	**Leasehold buildings KShs'000**	**Motor vehicles KShs'000**	**Fixtures, fittings and equipment KShs'000**	**Work in progress KShs'000**	**Total KShs'000**
Cost:					
Balance at 1 January 2020	2,019,154	52,586	1,834,852	-	3,906,592
Additions			25,011	6,960	31,971
Disposals	(94,393)	-	-	-	(94,393)
Work in progress	-		(24,823)	-	(24,823)
Write Offs	-	-	(110,252)	-	(110,252)
Balance at 31 December 2020	**1,924,761**	**52,586**	**1,724,788**	**6,960**	**3,709,095**
Depreciation:					
Balance at 1 January 2020	229,529	27,900	1,252,781	-	1,510,210
Right-of-Use depreciation charge	175,516	-	-	-	175,516
Charge for the year	11,610	12,690	145,080	-	169,380
Transfer to assets held for sale	-	-	(15,333)	-	(15,333)
Write Offs	-	-	(98,722)	-	(98,722)
Balance at 31 December 2020	416,655	40,590	1,283,806	-	1,741,051
Net carrying amount at 31 December 2020	**1,508,106**	**11,996**	**440,982**	**6,960**	**1,968,044**
2019:					
Cost:					
Balance at 1 January 2019	1,094,174	60,066	1,719,117	162,292	3,035,649
Recognition of Right-of-Use on initial application of IFRS 16	1,025,180	-	-	-	1,025,180
Additions	-	20,623	86,253	-	106,876
Transfer to property & equipment	-	-	29,482	(29,482)	-
Transfer to intangible assets	-	-	-	(117,485)	(117,485)
Disposals	(100,200)	(28,103)	-	-	(128,303)
Write Offs	-	-	-	(15,325)	(15,325)
Balance at 31 December 2019	**2,019,154**	**52,586**	**1,834,852**	**-**	**3,906,592**
Depreciation:					
Balance at 1 January 2019	26,225	46,545	1,105,486	-	1,178,256
Right-of-Use depreciation charge	194,701	-	-	-	194,701
Charge for the year	11,985	9,458	147,295	-	168,738
Disposals	(3,382)	(28,103)	-	-	(31,485)
Balance at 31 December 2019	**229,529**	**27,900**	**1,252,781**	**-**	**1,510,210**
Net carrying amount at 31 December 2019	**1,789,625**	**24,686**	**582,071**	**-**	**2,396,382**

During the financial year, the Bank closed/ consolidated 3 branches with KShs 11 million worth of assets written off and KShs 9 million worth of assets transferred to non-current assets held for sale.

22. Non-current asset held for sale

	2020 KShs'000	**2019 KShs'000**
Balance at 1 January	-	29,746
Impairment	-	(29,746)
Transfer from property and equipment	9,490	-
Balance at 31 December	**9,490**	**-**

23. Intangible assets

Software

Cost:	2020 KShs'000	2019 KShs'000
Balance at 1 January	501,007	318,509
Additions	61,461	65,013
Transfer from Work in Progress	-	117,485
Write offs	(14,509)	-
Balance at 31 December	**547,959**	**501,007**
Amortisation:		
Balance at 1 January	308,199	278,380
Charge for the year	51,689	29,819
Write offs	(14,509)	-
Balance at 31 December	**345,379**	**308,199**
Net carrying amount		
Balance at 31 December	**202,580**	**192,808**

24. Deferred tax asset

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

Deferred income tax asset	31.12.2019 KShs'000	Prior year under provision KShs'000	Recognised in profit or loss KShs'000	Recognised in other comprehensive income KShs'000	31.12.2020 KShs'000
Impairment loss allowance	(1,028,136)	-	158,770	-	(869,366)
Provisions	(52,561)	-	10,371	-	(42,190)
Tax losses	(1,580,711)	-	(343,486)	-	(1,924,197)
Property and equipment	149,939	(102,236)	(5,381)	-	42,322
Equity investments at FVOCI	(14,770)	-	-	867	(13,903)
IFRS 16	(20,081)	-	(4,442)	-	(24,523)
Net deferred income tax	**(2,546,320)**	**(102,236)**	**(184,168)**	**867**	**(2,831,857)**

	31.12.2018 KShs'000	Recognised in profit or loss KShs'000	Recognised in other comprehensive income KShs'000	31.12.2019 KShs'000
Deferred income tax asset				
Impairment loss allowance	(1,450,677)	422,541	-	(1,028,136)
Provisions	(24,817)	(27,744)	-	(52,561)
Tax losses	(323,558)	(1,257,153)	-	(1,580,711)
Property and equipment	157,341	(7,402)	-	149,939
Equity investments at FVOCI	(18,257)	-	3,487	(14,770)
IFRS 16	-	(20,081)	-	(20,081)
Net deferred income tax	**(1,659,968)**	**(889,838)**	**3,487**	**(2,546,320)**

24. Deferred tax asset (Continued)

The Bank has cumulative tax losses amounting to KShs 6,414 million as at 31 December 2020: (2019 – KShs 5,269 million).

Under the Kenyan Income Tax Act, with effect from 1st January 2010, tax losses are allowable as a deduction in that year and in the four years succeeding the year in which they occurred. The Finance Act 2015 amended the Income Tax Act by stating that from 1 January 2016, tax losses are allowable as a deduction in that year and in the nine years succeeding in the year in which they occurred.

The aging of tax losses is as below:

Year	Tax losses KShs'000	Year of expiry
2018	1,078,527	2027
2019	4,190,509	2028
2020	1,144,954	2029
	6,413,990	

25. Other assets

	2020 KShs'000	2019 KShs'000
Financial assets		
Uncleared effects	124,197	138,842
Mobile banking and money transfer receivables	334,095	397,728
Security deposit refundable	79,134	79,324
Guarantee fees receivable	3,546	8,887
Other receivables	165,475	387,905
	706,447	**1,012,686**
Other assets		
Prepayments	276,604	341,390
	983,051	**1,354,076**

Other receivables include KShs 108 million (2019 KShs 137 million) for amounts due from Group Banks for reimbursements for costs incurred by the Bank on behalf of the Bank and commissions receivable for syndicated facilities.

26. Due to other banking institutions

Maturing within 90 days	97	1,877

Other banking institutions include both local and foreign non-Group banks.

27. Customer deposits

	2020 KShs'000	2019 KShs'000
Current and demand deposits	16,248,024	19,975,736
Savings accounts	2,049,542	2,017,850
Fixed deposit accounts	9,250,095	11,004,849
Margin deposits	428,876	328,797
	27,976,537	**33,327,232**
Weighted average interest rate	3.28%	3.70%

28. Borrowings

	2020 KShs'000	2019 KShs'000
Borrowings from:		
BOA Mer Rouge	2,805,269	-
Subordinated debt		
BOA Group S. A	1,018,596	1,439,516
	3,823,865	**1,439,516**
Balance at 1 January	1,439,516	4,683,357
Additions	2,730,000	-
Repayments	(560,025)	(3,057,000)
Net accrued interest	64,691	(151,168)
Exchange differences	149,683	(35,673)
Balance at 31 December	**3,823,865**	**1,439,516**

The fair values of borrowings are disclosed in Note 4. Fair values, are based on discounted cash flows using a discount rate based upon the borrowing rate that the Directors expect would be available to the Bank at the year-end date.

Borrowings by Bank of Africa Kenya Limited are;

— An unsecured 1 year and 30 days term loans of USD 25.0 million from BOA Mer Rouge for the development of the Bank's lending business in foreign currency. The loans were obtained in 2020 and are to mature in 2021. Interest is payable on maturity of the loan. The effective interest rate on the loans at 31 December 2020 was 3.4% (2019: 4.86%).

The subordinated debt is made up of the below facility;

— A subordinated convertible loan as an unsecured 7-year loan of EUR 7.3 million issued by BOA Group S.A to enhance the Banks capital base. The loan was obtained on 1 July 2020 and has a maturity date of 1 July 2028.The debt has an initial five-year principal repayment moratorium. It bears an interest rate referenced to the Euribor payable semi-annually in arrears. The effective interest rate on the subordinated debt as at 31 December 2020 was 5.6% (2019: 5.57%). The subordinated debt is treated as Tier 2 capital in line with Central Bank of Kenya Prudential Guidelines.

There were no breaches to the covenants of the borrowings during the year.

29. Other liabilities

	2020 KShs'000	2019 KShs'000
Financial liabilities		
Outstanding bankers' cheques	19,588	32,834
Accrued expenses*	228,488	99,254
Insurance premiums payable	180	1,647
Provisions	6,888	7,296
Other payables	89,806	428,559
	344,950	**569,590**
Other liabilities		
Deferred income	83,007	105,712
Lease liability-IFRS 16	645,250	881,557
	1,073,207	**1,556,859**

*Included in other payables is 100% provision of KShs 108 million for amounts long outstanding with Group related banks.

30. Share capital and share premium

	2020 KShs'000	2019 KShs'000
Authorised and Issued and fully paid-up share capital:		
1 January		
6,404,949 ordinary shares of KShs 1,000 each	6,404,949	6,404,949
The movement in 1,522,500 ordinary shares of Kshs. 1,000 each during the year (2019 -Nil)	1,522,500	-
Balance at 31 December 7,927,449 (2019 - 6,404,949)	**7,927,449**	**6,404,949**

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

Share premium

Balance at 31 December 2020	**1,980,356**	**1,980,356**

Share premium arises from issue of shares at a price higher than the par value of the shares. These are being applied in business expansion of the Bank.

31. Statutory credit risk reserve

	2020 KShs'000	2019 KShs'000
Balance at 1 January	317,564	486,296
Transfer to/ (from) retained earnings	183,937	(168,732)
Balance at 31 December	**501,501**	**317,564**

The statutory credit risk reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya Prudential Guidelines. The balance in the reserve represents the excess of impairment provisions determined in accordance with Central Bank Guidelines over the impairment provisions recognized in accordance with the International Financial Reporting Standards.

32. Other reserves

(a) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of equity investment at FVOCI financial assets until the investments are derecognized or the asset is impaired at which point the cumulative changes are transferred to retained earnings.

(b) Foreign currency translation reserve

The foreign currency translation reserve represents translation differences on investments in foreign operations.

33. Off balance sheet financial instruments, contingencies and commitments

In common with other banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the statement of financial position.

33. Off balance sheet financial instruments, contingencies and commitments (Continued)

Contingent liabilities

	2020 KShs'000	2019 KShs'000
Acceptances and letters of credit	2,340,299	641,143
Guarantees and performance bonds	6,186,247	5,561,000
	8,526,546	**6,202,143**

Nature of contingencies

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

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

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

	2020 KShs'000	2019 KShs'000
Unutilized credit lines and other facilities	483,124	767,893
Currency forwards	-	169,161
Foreign exchange spots	36,047	42,860
	519,171	**979,914**

Nature of commitments

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

Forward foreign exchange contracts are commitments to either purchase or sell a specified quantity of foreign currency at a specified future date at an agreed rate. The fair values of the respective currency forwards are carried under other assets or other liabilities as appropriate.

34. Analysis of cash and cash equivalents as shown in the cash flow statement

	2020 KShs'000	2019 KShs'000
Cash and balances with Central Bank (Note 13)	8,061,820	9,250,628
Less: cash reserve requirement (Note 13)	(1,157,670)	(1,714,531)
Investment and other securities (Note 18 (b))	608,710	1,570,057
Deposits due from other Banks (Note 15)	4,164,412	2,938,741
Due to banks and non-bank financial institutions (Note 26)	(97)	(1,877)
Amounts due to other Bank (net) (Note 16)	(4,566,014)	(3,285,026)
At 31 December	**7,111,161**	**8,757,992**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with Central Bank, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya.

35. Dividends

At the next Annual General Meeting, no dividend in respect of the year ended 31 December 2020 is to be proposed (2019: Nil). Payment of dividends is subject to withholding tax at a rate of 5% for resident and 10% for non-resident shareholders or 0% for local Companies with 12.5% shareholding or above.

36. Fiduciary activities

The Bank holds asset security documents on behalf of customers with a value of KShs 3.737 million (2019: KShs 2.298 million). These securities are held by the Custody Services department of the Bank. The assets held comprise of deposits, government securities, debentures, title deeds, quoted and unquoted shares.

37. Contingent liabilities

The Bank has on-going tax matters with the Kenya Revenue Authority (KRA). As at 31 December 2020, the directors have not made provisions for these tax matters as they are of the view, based on advice received from its tax advisors, that these amounts are not payable.

A suit filed against a Landlord on behalf of the Bank, on demand that that the Bank pay rent until expiry of the lease of the premises, notwithstanding the fact that the Bank had given notice to vacate the premises early, and even found alternative tenants for the premises, which the landlord rejected.

The Bank has a dispute with a regional Lender where the latter is accusing the Bank of not adhering to the terms of an escrow account operated by the Bank. The Bank is currently considering next course of action and based on legal advice, these amounts are not payable.

38. Subsequent events

There were no events after 31 December 2020 that would have a material effect, adjusting or non-adjusting, on the financial statements.

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