Consolidated Bank
Growing with you

ANNUAL REPORT
& FINANCIAL STATEMENTS

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 31 DECEMBER 2020

Consolidated Bank

Growing with you

CONTENTS

Corporate information.. 18
Statement of corporate governance.. 19
Report of the directors..24
Statement of directors' responsibilities..26
Directors' remuneration.. 27
Report of the Auditor General 29
Group Statement of profit or loss and other comprehensive income.................... 32
Bank Statement of profit or loss and other comprehensive income...................... 33
Group Statement of financial position..34
Bank Statement of financial position..35
Group Statement of changes in equity..36
Bank Statement of changes in equity..37
Group Statement of cash flows..38
Bank Statement of cash flows..39
Notes to the financial statements..40
Appendices..119
Appendix 1 Statement of comparison (Actual vs Budget)
Appendix 2 Issues Raised by the Auditor General during the previous year

THE YEAR THAT WAS – 2020

The Bank conducted a series of Customer Forums across the Branches during the months of February and March 2020

Head of Retail & SME Ms. Josephine Kioko and Principal officer CBL Insurance Agency Ltd the Bank's insurance agency subsidiary Mr. Peter Wachira


Customer Testimonials given by Mr. Edward Warui and Mrs. Catherine Njuru

Bank staff led by the CEO Mr. Thomas Kiyai during the Customer Forum for Nairobi Branches held at the Hilton Hotel in March 2020

Bank Staff led by the CEO Mr. Thomas Kiyai and Customers share a light moment during the Customer Forum held by Thika Branch

Branch Manager, Kitengela - Lucas Odongo addresses customers during the Customer Forum held by Kitengela branch

Branch Manager, Embu - Benard Methu prepares to make a presentation during the Customer Forum by Embu Branch

Staff across the branch network spread some love and shared gifts with the Bank's Customers during a deposit mobilization campaign dubbed #ValentinesMonthCampaign

BOARD
OF DIRECTORS:

Current
Mr. Peter Musei (Appointed on 7 August 2020) Chairman

Dr. Iyaya Wanjala – (Term ended on 07 August 2020) (Chairman)

Thomas Kiyai - Chief Executive Officer (Term ended on 09 April 2021)

Cabinet Secretary, National Treasury
Managing Trustee - NSSF
Hon. Yusuf Chanzu

Dr. Kennedy Otiso
Miriam Cherogony

Dr. Nathan Psiwa
Hardlyne Lusui

BOARD OF DIRECTORS

1. PETER NTOYIAN MUSEI - CHAIRMAN OF THE BOARD

Peter Ntoyian Musei was appointed as the Chairperson of the Board on 7th August 2020. He is a result oriented professional, an Executive Director, National Coordinator, Project Manager and an eagle-eyed leader who has an exceptional track record of delivering through positive contribution and commitment. Musei is an experienced pragmatic leader of great stature who has the ability to develop substantive knowledge in key organizational areas such as Operations, Management, Administration, Finance, Leadership and Project Management.

He has over 20 years' experience in Organizational Administration & Management most of which he has served as a Director in different private organizations and NGOs. He holds a Bachelor of Education Degree from Catholic University of East Africa and a Master of Business Administration – (Strategic Management) from Kenya Methodist University.

2. JAPHETH KISILU- AG. CHIEF EXECUTIVE OFFICER

Japheth Kisilu joined the Bank in 2004 as the Chief Accountant. He was previously at Africa Media Group as the East Africa Region Finance Manager. He has also gained accounting experience from Price Waterhouse (Kampala and Nairobi) and Ernst & Young (London and Nairobi) in various managerial and supervisory positions.

He holds a Masters of Business Administration degree in Strategic Management from Moi University, a Bachelor of Commerce degree (Accounting Option) from University of Nairobi and has attended numerous training courses in Management and Leadership. He is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW) and a member of ICPAK.

3. WAKONYO IGERIA - COMPANY SECRETARY

Wakonyo Igeria was appointed as the Head of Legal Services and Company Secretary in June 2004. She holds a Bachelor of Laws Degree and a Diploma in Law from the Kenya School of Law.

She is an Advocate of the High Court of Kenya of 30 years experience, a Commissioner for Oaths and Notary Public and a Certified Secretary (Kenya). Wakonyo Igeria is a member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya.

BOARD OF DIRECTORS

4. HON. UKUR YATANI KANACHO – CABINET SECRETARY, THE NATIONAL TREASURY - INSTITUTIONAL DIRECTOR

Hon. Ukur Yatani Kanacho has over 27 years experience in public administration, politics, diplomacy and governance in the public sector since 1992. Before his appointment as Cabinet Secretary for the National Treasury & Planning he served as the Cabinet Secretary for Labour and Social Protection, Member of Parliament for North Horr constituency, Assistant Minister for Science and Technology and as a pioneer Governor of Marsabit County.

Between June 2009 and October 2012, he served as Kenya's Ambassador to Austria. In this position, he aggressively pursued and advanced Kenya's foreign interests. He has also held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), UNIDO, UNTOC, Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ), and chair of African Group of Ambassadors among others.

5. DR. ANTHONY OMERIKWA, MANAGING TRUSTEE, NSSF - INSTITUTIONAL DIRECTOR

Dr. Anthony Omerikwa is the Acting CEO/Managing Trustee of the National Social Security Fund. Prior to his current position, he served as the Acting General Manager Operations in the same institution overseeing Information Technology, Human Resource, Administration and Procurement functions.

He holds a Doctoral degree from the University of Georgia, a specialist advanced degree in labour, workforce development and education and a Master of Science degree in Human Resource Development both from Pittsburgh State University, a Bachelor of Arts degree in Economics from Kenyatta University and a Diploma in data processing and management from Strathmore College. Dr. Omerikwa is an associate member of the Institute of Human Resource Management and Institute of Directors.

6. DR. KENNEDY NTABO OTISO, PHD. - MEMBER OF THE BOARD

Dr. Kennedy Ntabo Otiso, PhD, was appointed to the board of Consolidated Bank on the 21st of September, 2018. He holds a Doctor of Philosophy in Business Management (Marketing Option), a Master of Business Management (Marketing Option) all from Moi University. He has a bachelor's degree in Business Administration (Marketing Option-Cum Laude) graduated from the University of Eastern Africa, Baraton.

He has over 10 years of experience serving in different capacities in various institutions of higher learning in Kenya. Notably he has served at Kibabii University as lecturer as well as a founding chairman of the Department of Business administration and Management. In addition he served as an assistant Lecturer at the University of Eastern Africa, Baraton. He has also served as Chief Principal at Elgonview College.

Dr. Otiso currently serves as a lecturer in the School of Business and Management Sciences in the University of Eldoret. He has published widely scholarly works; he has reviewed peer academic journals and actively attended several international conferences. He has supervised and examined many postgraduate students from various Universities in Kenya. He is the current Chairman, Board of Management, Ntana High School in Nyamira County. Dr. Otiso is a trained professional marketer as well as a member of the Marketing Society of Kenya and Kenya Institute of Management respectively.

BOARD OF DIRECTORS

7. MIRIAM CHEROGONY – DIRECTOR

Miriam Jerotich Cherogony was appointed to the board of Consolidated Bank on 21st September 2018. She has over 20 years' experience in research, design & formulation, monitoring & evaluating, development plans and policies as well as a wide knowledge of office work and managing people. Ms. Cherogony has acquired a wide knowledge in strategy development, project and procurement management, She is serving her second term

She has also worked in various capactities Internationally in the following countries namely: Canada, Ethiopia, Eritrea, Ghana, Kenya, Lesotho, Mozambique, Nigeria, Rwanda, Sierra Leone, Somali land, South Africa, Swaziland, Tanzania, Uganda, and Zambia. Ms. Cherogony has worked as the Africa Regional Manager -Global Development Incubator, Team Leader & Development Finance Specialist-Rural Finance Knowledge Management Partnership (KMP), Team Leader & Knowledge Management Specialist – IFAD Africa Grant, Programme Coordinator at African Rural and Agricultural Association (AFRACA), Nairobi Kenya. She has also served as a Senior Research Officer at K-Rep Development Agency Nairobi, Kenya, Senior Manager-Rural Financial Services Department and Manager-Rural Financial Services Department among other notable institutions.

She has a Master of Science and a Bachelor of Science degree in Agricultural Economics both from the University of Manitoba, Canada.

8. HON. YUSUF KIFUMA CHANZU, CBS, OGW, HSC - MEMBER OF THE BOARD

Hon. Yusuf Kifuma Chanzu, CBS, OGW, HSC was appointed to the Board of Consolidated Bank on 21st September, 2018. He has over 30 years of public service. He has been a Member of Parliament, Vihiga Constituency from December 2007 to August 2017 where he was Involved in all legislative work of Parliament, performed the oversight role, and representation. He has served in various capacities in the government as Commissioner with Communications Commission of Kenya, Assistant Minister for Labour & Human Resource Development where he was Involved in the management and running of the Ministry, Assistant Minister for Energy where he was Involved in the management and running of the Ministry, Assistant Minister for Water Resources where he was Involved in the management and running of the Ministry. He has also been an Advisor Quipcons Associates, Consulting Quantity Surveyors & Project Managers. He was also a Chief Quantity Surveyor, Ministry of Public Works/ Local Government.

He has been honored by the Head of state with The First Class Order of the Chief of Burning Spear (CBS), The Order of Grand Warrior (OGW) and The Head of State Commendation (HSC) for his work in public service. He holds a Master of Science in Construction Management (Corporate Strategy) from Heriot -Watt University, Edinburgh. He also has an undergraduate Undergraduate Course, B.A Building Economics (Honours),University of Nairobi.

He is a Corporate Member of the Architectural Association of Kenya (Quantity Surveying), a Registered Quantity Surveyor with the Board of Registration of Architects and Quantity Surveyors Kenya and Fellow of the Institute of Quantity Surveyors of Kenya. He is also an Associate of the Chartered Institute of Arbitrators and a Member of the Kenya Institute of Management.

BOARD OF DIRECTORS

9. DR. NATHAN KITIO PSIWA - MEMBER OF THE BOARD

Dr. Nathan Kitio Psiwa was appointed to the Board of Consolidated Bank on 21st September 2018. He has over 15 Years' experience in Orthodontics. He has served in three boards, two as a member and one as a Chairperson. He has been a Chairperson and a Member of Council at Rongo University and a Chairperson at Kenya Industrial Research and Development Institute (KIRDI). He is currently a lecturer at University of Nairobi, Department Of Paediatric Dentistry And Orthodontics.

Dr. Nathan Psiwa holds a Certificate in Audit and Risk Management from Association of Internal Auditors Kenya (AIK) and a Certificate in Governance from Kenya School of Governance (KSG).

He holds a Master of Science in Dental Surgery (Ortho) from University of the Western Cape in South Africa and a Bachelor of Dental Surgery from the University of Nairobi.

He is currently a member of the following bodies: the Kenya Dental Association, the Kenya Medical Association, the Orthodontic Society of Kenya and Institute of Directors (IOD- K).He is an Associate member of South African Association of Orthodontists (SASO) and Tanzania Medical Association.

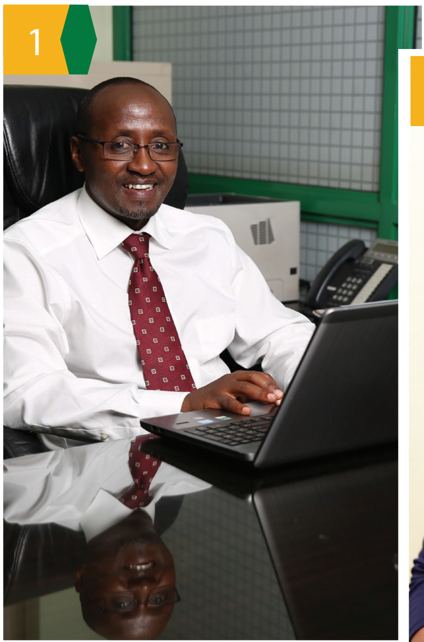
10. HARDLYNE LUSUI - MEMBER OF THE BOARD

Hardlyne Lusui was appointed as a member Board of Directors of Consolidated Bank Kenya Limited on 21st December 2018 vide gazette notice No. 13234. Having come from World Poles Ltd as Marketing and Credit Control Manager, she has over 15 years of experience in the banking and finance sector.

Remarkably, she has worked as a Project manager at Israel for Africa and previously for I&M Bank Limited, National Bank of Kenya, Equity Bank Kenya Limited and Cadbury Kenya Ltd.

She holds a degree in Information Science from Kenya Methodist University, alongside two First Class Honors from the Institute of Banking and Business Communication in Corporate Banking, Credit analysis and IBBC-Retail Banking Courses.

SENIOR MANAGEMENT



1. JAPHETH KISILU
Chief Commercial Officer & Ag CEO

2. WAKONYO IGERIA
Company secretary & Head of Legal Services

3. JOSEPH NJUGUNA
Head of Finance & Administration

4. ERASTUS GACHOYA
Head of Corporate Banking

5. JACINTA LWANGA
Head of Human Resource

6. JOSHUA KAGIA
Head of Treasury

SENIOR MANAGEMENT

7. JOSEPHINE KIOKO
Head of Retail & SME

8. EDWARD NTHULI
Head of Operations

9. JULIE ODADI
Ag. Head of Credit

10.GEORGE RUTTO
Head of Internal Audit

11. HARRISON MUTHOKA
Ag. Head of Risk & Compliance

12. MARTIN OMIDO
Head of ICT

CHAIRMAN'S STATEMENT

PETER NTOYIAN MUSEI
CHAIRMAN

It's with great pleasure that I present the Bank's Annual Report and Financial Statements for the year ended December 31, 2020. This comes against a backdrop of a global health and economic crisis resulting from the COVID 19 pandemic which broke out in Wuhan City of Hubei province of China in December 2019 and rapidly spread across the globe. The pandemic inflicted a heavy human toll and destroyed livelihoods, businesses and caused unprecedented economic disruptions.

Macroeconomic overview

As a result of the pandemic, the global economy was expected to contract by 4.9% from estimated growth of 2.9% in 2019 and 3.3% in 2020. The global economic outlook has improved, but remains highly uncertain. According to the IMF's April 2021 World Economic Outlook (WEO), the global economy contracted by 3.3 percent in 2020, but is expected to expand by 6.0 percent in 2021. The expected improvement in global output is due to additional fiscal support in some major economies, as well as a vaccine-driven recovery expected in the second half of 2021.

Although Kenya was somehow spared the severe effects of the COVID 19 pandemic in the first quarter of 2020, the economy was significantly affected by the disease in the second and third quarter of 2020 with Real GDP contracting by 5.7% and 1.1% in the second and third quarter respectively. During this period, the country instituted measures aimed at containing the spread of the virus, that included restriction of movement in and out of some counties, closure of learning institutions, closure of some businesses especially those dealing in Accommodation and Food services, near cessation of international travel among others.

Leading Economic Indicators for the fourth quarter of 2020 and first quarter of 2021, point to a strong recovery in industrial activity from the adverse impact of the COVID 19 pandemic, and continued strong performance of the agriculture sector. As a result, the economy is expected to record a modest positive overall growth rate in 2021, with the positive performance of the first and fourth quarters counterbalancing the contractions recorded in the second and third quarters in 2020.

The Banking Sector remained stable and resilient with strong liquidity and capital adequacy ratios. To mitigate the impact of the COVID 19 pandemic Central Bank of Kenya on March 27th, 2020 provided commercial banks and mortgage finance companies with guidelines on loan reclassification and provisioning of extended and restructured loans as per the Banking Circular No 3 of 2020.

The pandemic however adversely impacted the asset quality and overall sector performance with gross non performing ratio standing at 14.1% compared to 12.5% in 2019. Annual average inflation rate rose to 5.20 % in 2019 compared to 4.69 % recorded in 2018 but remained within the medium-term target of 5.0 % with a range of plus or minus 2.5 %. In a bid to boost economic growth Central Bank of Kenya continued to ease monetary policy by reducing the CBR to 8.5% in December 2018 from 9% in 2018.

Bank's Performance

The Bank planned to turnaround into profitability by the last quarter of 2020 and reduce operating loss before tax by 64% to KShs 194 million from Kshs 518 million in 2019. The implementation of the plan was however adversely impacted by the disruptions arising from the COVID 19 pandemic. Despite the challenging environment the Bank managed to grow its total assets by 8% to KShs 12.8 billion from KShs 11.9 billion in 2019. Net advances grew by 15% to KShs 8.4 billion from KShs 7.3 billion while deposits grew by 5% to KShs 9.2 billion from KShs 8.8 billion the previous year. Overall the Bank recorded an improved performance by reducing the loss after tax to Kshs 277 million from Kshs 530 million in 2019.

Corporate Social Responsibility

The Bank recognizes its corporate responsibility commitments and is determined to sustain high standards of corporate citizenship by preserving and promoting human values as well as conserving the environment for sustainability.

Board Changes: The following Board Changes were affected during the year

1. Peter Musei was appointed Chairman on 7th August 2020
2. Dr. Iyaya Wanjala's term as Chairman ended on 7th August 2020

Conclusion

On behalf of the Board and Management I wish to express the Bank's utmost gratitude to the shareholders and the National Treasury in particular for their continued commitment and support of the Bank as it implements its turnaround strategy. I also take this opportunity to thank our Customers, Staff, Suppliers and fellow Board Members for their dedicated contribution and support towards the growth of the Bank.

PETER NTOYIAN MUSEI
CHAIRMAN

CEO's STATEMENT

JAPHETH KISILU
AG. CHIEF EXECUTIVE OFFICER

Macroeconomic Overview

According to the IMF's April 2021 World Economic Outlook (WEO), the global economy contracted by 3.3 percent in 2020, but is expected to expand by 6.0 percent in 2021. Overall the global economic outlook has improved but uncertainty still lingers due to the resurgence of the various waves and emergence of new variants of COVID 19 virus.

The Kenyan economy began to recover in the second half of 2020, as economic activity picked up following easing of various containment measures instituted by the Government to mitigate the spread of the COVID 19 pandemic. In the third quarter of 2020, real GDP contracted by 1.1%, a significant improvement compared to the second quarter, but low compared to the 5.8% growth realized in the third quarter of 2019. Leading Economic Indicators for the fourth quarter of 2020 and first quarter of 2021, point to a strong recovery in industrial activity from the adverse impact of the COVID 19 pandemic and continued strong performance of the agriculture sector. As a result, the economy is expected to record a modest positive overall growth rate in 2021, with the positive performance of the first and fourth quarters counterbalancing the contractions recorded in the second and third quarters in 2020.

Bank's Performance

Despite the challenging economic environment the Bank recorded an improved performance compared to the previous year. Total assets increased by 9% to Kshs 12.9 billion from Kshs 11.9 billion in 2019. Net advances grew by 15% to Kshs 8.5 billion from Kshs 7.4 billion in 2019 while the deposits increased by 5% to Kshs 9.2 billion from Kshs 8.9 billion in 2019. Net interest income increased by 19% to Kshs 643 million from Kshs 541 million in 2019 while the non-funded income declined by 5% due reduced transaction volumes and impact of measures implemented to cushion customers from the impact of COVID 19. Total operating revenue increased by 5% to Kshs 1.298 billion from Kshs 1.232 billion in 2019. Total operating expenses declined by 11% to Kshs 1.557 billion from Kshs 1.751 billion in 2019. Overall the operating loss declined by 50% to Kshs 258 million from Kshs 518 million in 2019.

The gross non-performing loans ratio improved to 25.2% from 30.7% in 2019. Recoveries from non performing loans were Kshs 606 million with writeback of Kshs 277 million to the P& L.

Strategic Focus and Turnaround

The Board and Management continue to implement various initiatives to turn around the Bank. The Bank plans to significantly grow its deposits and net advances to increase interest revenue. Specific marketing and promotional initiatives will be implemented to ensure the Bank taps cheaper deposits through the retail branch network and digital platforms and improve both cost of funding and liquidity. Raising fresh capital to support balance sheet growth and maintain healthy prudential ratios is of paramount importance. The Board is engaging the National Treasury and other potential shareholders to inject additional capital in the Bank to ensure compliance with the prudential capital ratios.

Corporate Social Responsibility

The Bank recognizes its corporate responsibility commitments and is determined to sustain high standards of corporate citizenship by preserving and promoting human values as well as conserving the environment for sustainability.

Conclusion and Appreciation

With the unwavering support and commitment of our Board of Directors, Staff, Customers, Shareholders and Partners, we remain confident that the Bank will overcome and surmount the current challenges and successfully turnaround its performance.

I wish to express my deepest gratitude to firstly, our Customers, for believing in us and continuing to retain us as their preferred banking partners. To our Shareholders, we thank you for your support. To our Regulator, as well as the communities we exist in, thank you for creating an enabling environment for our operations. Lastly, I remain indebted to all Employees and the Board of Directors for their commitment and dedication to the Bank throughout the year. We remain resolute to continue serving our Customers and providing value to our Stakeholders going into the future.

JAPHETH KISILU
AG. CHIEF EXECUTIVE OFFICER

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

CORPORATE INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2020

DIRECTORS:

Current
Peter Musei (Appointed on 7 August 2020) -Chairman
Dr. Iyaya Wanjala – (Term ended on 07 August 2020) (Chairman)
Thomas Kiyai - Chief Executive Officer (Term ended 09 April 2021)
Cabinet Secretary, National Treasury
Managing Trustee - NSSF
Hon. Yusuf Chanzu
Dr. Kennedy Otiso
Miriam Cherogony
Dr. Nathan Psiwa
Hardlyne Lusui

AUDIT COMMITTEE (CONSTITUTED MARCH 2021):

Hardlyne Lusui
Hon. Yusuf Chanzu
Nathan Psiwa
Geofrey Malombe Alt. Director CS -National Treasury

RISK COMMITTEE:

Dr. Kennedy Otiso-Chairman
T. Kiyai
Hardlyne Lusui
Miriam Cherogony
Managing Trustee - NSSF
Cabinet Secretary, The National Treasury

STAFF COMMITTEE:

Hardlyne Lusui-Chairman
Managing Trustee, NSSF
Hon. Yusuf Chanzu
Thomas Kiyai
Nathan Psiwa

CREDIT AND FINANCE COMMITTEE:

Miriam Cherogony-Chairman
Hon. Yusuf Chanzu
Dr. Nathan Psiwa
Thomas Kiyai
Managing Trustee - NSSF
Cabinet Secretary, National Treasury

COMPANY SECRETARY
Wakonyo Igeria
Certified Public Secretary (Kenya)
P. O. Box 51133 – 00200, Nairobi

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

AUDITORS:

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

Delegated auditor:
Ernst & Young LLP
Certified Public Accountants
Kenya-Re Towers, Upper Hill,
Off Ragati Road
P. O. Box 44286 – 00100, Nairobi

CORRESPONDENT BANKS:

ABSA Bank Limited
Vostro Department
P.O. Box 585 Johannesburg 2000

BMCE Bank International
Serrano 59 - 280006
Madrid
Italy

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

LEGAL ADVISERS:

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

LEGAL ADVISERS :

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

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

STATEMENT OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

BUSINESS ETHICS

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

BOARD OF DIRECTORS

The names of the Directors as at the date of this report are set out on page 18.

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

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

a) Directors' Emoluments and Loans

The remuneration of all Directors is subject to the guidelines issued by the Office of the President on terms and conditions of service for State Corporations. The Directors are not eligible for membership of the pension scheme and do not participate in any of the Bank's bonus schemes. Information on the compensation received and the dealings of the Directors with the Bank are included in notes 17 and 44 to the financial statements.

b) Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the Bank and its Directors or Management except those disclosed in note 44 to the financial statements.

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

AUDIT COMMITTEE

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

The committee has direct contact with the Internal Audit function, the Company Secretary and the external auditors. During the year, the bank did not have a functional Board Audit Committee. According to the CBK prudential guidelines at least one of the members of the Audit Committee should be a Finance professional who is a member of the Institute of Certified Public Accountants of Kenya – ICPAK or an equivalent institute recognised by the by the East African Community States. During the period under review the Board did not have a member who met this criterion and hence the Board Audit Committee was not constituted. Some of the critical functions of the Board Audit Committee were performed by the Credit Finance Committee and the main Board. The matter has been raised with the National Treasury the appointing authority.

2. CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

RISK COMMITTEE

The committee is responsible for overseeing the implementation of the Bank's risk management framework to ensure that all existing and potential significant risks are identified and effectively managed. The committee considers both internal and external sources of information regarding risks to keep abreast with new developments and their potential impact to the business.

The committee receives periodic reports from the risk and compliance function relating to the Bank's strategic risk, credit risk, market risk (interest rate risk, price risk, and foreign exchange risk), operational risk, regulatory risk, reputational risk, and liquidity risk.

FINANCE AND CREDIT COMMITTEE

The committee is mandated to review and make recommendations on the Bank's credit, financial and accounting policies, and review and make recommendations on the Bank's Annual Budget, oversight of the overall lending policy of the Bank and deliberate and consider loan applications beyond the credit discretion limits set for management.

The committee also reviews and considers all issues that may materially impact the present and future quality of the Bank's credit risk management function as well as the quality of the loan portfolio and ensure adequate bad debt provisions are maintained in line with the Central Bank of Kenya prudential guidelines and IFRS. The committee also reviews, approves and monitors the management's compliance with applicable statutory provisions, Bank policies and guidelines relating to the monitoring of price, liquidity, exchange rate and interest rate risks.

STAFF COMMITTEE

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

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES
STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

BOARD MEETING ATTENDANCE

During the year under review, the Board held main board and working committee meetings.

The Board members attendance for 2020 is as follows:

Name	Board Meeting			Audit Committee			Risk & Compliance Committee			Credit & Finance Committee			Staff Committee		
	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%
Thomas Kiyai - (Chief Executive Officer)	7	7	100%				4	4	100%	4	4	100%	4	4	100%
Geof frey Malombe - Representing Cabinet Secretary National Treasury	7	6	86%				4	3	75%	4	3	75%			
Moses Cheseto- Alternate to Managing Trustee - NSSF	7	6	86%				4	3	75%				4	3	75%
Peter Musei – Chairman	0	0													
Dr. Iyaya Wanjala - (former Chairman)	3	3	100%				-	-	-	-	-	-	-	-	-
Hon. Yu suf Chanzu	7	7	100%							4	4	100%-	4	4	100%
Miriam Cherogony	7	7	100%				4	4	100%	4	4	100%	-	-	-
Dr. Kennedy Otiso	7	7	100%				4	4	100%	4	4	100%			
Dr. Nathan Psiwa	7	7	100%							4	4	100%	4	4	100%
Hardlyne Lusui	7	7	100%				4	3	75%	-	-	-	4	4	100%

The board members attendance for 2019 is as follows:

Name	Board Meeting			Audit Committee			Risk & Compliance Committee			Credit & Finance Committee			Staff Committee		
	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%
Thomas Kiyai-(Chief Executive Officer)	11	11	100%				3	3	100%	5	5	100%	4	4	100%
George Omino–Representing Cabinet Secretary National Treasury	11	10	91%				-	-	-	-	-	-	4	1	25%
Moses Cheseto- Alternate to Managing Trustee - NSSF	11	5	45%				3	3	100%	5	3	60%	-	-	-

BOARD PERFORMANCE EVALUATION

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

Below is the list of the shareholders and their individual holdings

	Ordinary Shares				Preference shares		
	2020 No of shares	%	2019 No of shares	%		2020	2019
Cabinet Secretary/The National Treasury	140,000,000	93.4%	140,000,000	93.4%	-	-	-
National Social Security Fund	2,225,000	1.5%	2,225,000	1.5%	8,050,000	22.30%	22.30%
Kenya National Assurance (2001)	1,094,487	0.7%	1,094,487	0.7%	3,958,300	11.00%	11.00%
Kenya National Assurance Company Limited	835,513	0.6%	835,513	0.6%	3,021,700	8.40%	8.40%
Kenya Pipeline Company Limited	720,000	0.5%	720,000	0.5%	2,631,500	7.30%	7.30%
Kenya National Examination Council	695,000	0.5%	695,000	0.5%	2,520,000	7.00%	7.00%
Public Trustees	660,000	0.4%	660,000	0.4%	2,420,000	6.70%	6.70%
Telkom Kenya Limited	620,000	0.4%	620,000	0.4%	2,250,000	6.20%	6.20%
National Hospital Insurance Fund	590,000	0.4%	590,000	0.4%	2,120,000	5.90%	5.90%
LAPTRUST Retirement Services Limited	483,000	0.3%	483,000	0.3%	1,756,000	4.90%	4.90%
Total of 10 above	147,923,000	98.7%	147,923,000	98.7%	28,727,500	79.70%	79.70%
Other shareholders	1,997,000	1.3%	1,997,000	1.3%	7,329,000	20.30%	20.30%
TOTAL SHAREHOLDING	149,920,000	100%	149,920,000	100%	36,056,500	100%	100%

Compliance

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

Peter Musei - Chairman

18 March 2021

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

INCOPORATION

The Bank is domiciled in Kenya where it is incorporated as a private company limited by Shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 18.

DIRECTORATE

The Directors who held office during the year and to the date of this report are set out on page 18.

The following changes took place in the directorship during the year.

- Peter Musei was appointed as the chairman on 7 August 2020.
- Dr. Wanjala Iyaya term as the chairman came to an end on 7 August 2020

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Kenya's economy was performing well prior to the global shock from the COVID-19 pandemic with accelerating growth, contained inflation and current account deficits, and a resumption of fiscal adjustment to tackle rising public debt vulnerabilities. The pandemic represents the largest economic shock the world economy has witnessed in decades. Various mitigation measures - such as lockdowns, curfews, closure of schools and non-essential business, and travel restrictions - were imposed to limit the spread of COVID-19 and ease the strain on health care systems.

The COVID-19 pandemic led to significantly reduced growth in 2020, with a large impact on agricultural exports, services, remittances, and the financial account thus weakening the external position. IMF had projected that Kenya real GDP growth in 2020 dropped to 1% from the previous projection of 5.9% with most economists placing the growth index at below 1%. Most economies are however expected to make recovery in 2021 due to easing of lockdowns and restrictions and rollout of the various vaccine initiatives. According to the World Bank the Kenyan economy is expected to recover and grow by 4.7% by the second quarter of 2021. To mitigate the impact of the pandemic the Central Bank of Kenya on March 27th, 2020 provided commercial banks and mortgage finance companies with guidelines on loan reclassification, and provisioning of extended and restructured loans as per the Banking Circular No 3 of 2020.

The Group planned to turnaround into profitability by the last quarter of 2020 and reduce operating loss before tax by 64% to KShs 194 million from KShs 518 million in 2019. The implementation of the plan was however adversely impacted by the disruptions arising from the COVID-19 pandemic. According to data from the Kenya National Bureau of Statistics the economy contracted by 1.1 % in the third quarter of 2020 compared with 5.8% in 2019.

Despite disruption arising from the COVID-19 pandemic the bank managed to grow its total assets by 8% to KShs 12.8 billion from KShs 11.9 billion in 2019. Net advances grew by 15% to KShs 8.4 billion from KShs 7.3 billion while deposits grew by 5% to KShs 9.2 billion from KShs 8.8 billion the previous year. In line with CBK circular number 3 of 2020 the bank granted moratorium to facilities totalling KShs 2.8 billion which were rescheduled or granted relief as per the CBK guidelines.

Commissions on loans and advances declined by 22% while transaction fees and foreign exchange declined by 11% and 8% respectively due to the business disruptions and reliefs granted to mitigate the impact of the COVID-19 pandemic. Overall the non-funded income declined by 22% to KShs 292 million from KShs 356 million. Total operating income however grew by 5.2% to KShs 1.297 billion from KShs 1.232 billion in 2019 due to the reduction in interest expense on borrowing arising from the redemption of the medium term note of KShs 1.52 billion in October 2019. Despite the difficult operating environment occasioned by the pandemic the Group and bank managed to reduce the loss before tax to KShs 259 million from KShs 518 million in 2019 and KShs 262million from KShs 516million in 2019 respectively.

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

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

	2020	2019
RESULTS	KShs'000	KShs'000
Loss before taxation	(258,878)	(518,001)
Taxation credit	(15,304)	(13,291)
Loss for the year transferred to accumulated deficit	(274,182)	(531,292)

DIVIDEND

The Directors do not recommend the payment of a dividend for the year (2019: nil).

STATEMENT AS TO DISCLOSURE TO THE BANK'S AUDITOR

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

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

AUDITOR

The Auditor General is responsible for the statutory audit of the Bank's books of account in accordance with section 14 and section 39(i) of the Public Audit Act, 2004 which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf and subject to the approval by the Central Bank of Kenya in accordance with the requirements of Section 24(1) of the Banking Act of Kenya.

Ernst & Young LLP, who were nominated by the Auditor General, carried out the audit of the financial statements for the year ended 31 December 2020.

BY ORDER OF THE BOARD

Secretary

Wakonyo Igeria

Nairobi

18 March
....**2021**

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES
STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

ii) selecting suitable accounting policies and applying them consistently; and making accounting estimates and judgements that are reasonable in the circumstances.

The Directors have considered the matters discussed in note 9 to the financial statements, which indicates that the group incurred a loss after tax of KShs 274.2 million during the year ended 31 December 2020 (2019: KShs 531.3 million) and accumulated losses stood at KShs 2.894billion (2019: KShs 2.567billion) as of that date.

The bank also realised a reduction of 49% in operating losses despite the difficult operating environment and disruptions arising from the COVID-19 pandemic. The Bank's total assets grew by 8% to KShs 12.8 billion from KShs 11.9 billion in 2019. The net interest income increased by 19% to KShs 643 million from KShs 541 million the previous year due to the reduction in interest expense by 38% attributed to the reduced interest on borrowing following the repayment of the corporate bond of KShs 1.52 billion in October 2019.

The bank's regulatory capital ratios as at 31 December 2020 were however below the regulatory minimum with total capital / ri sk weighted assets at 9.2% (2019: 13.5%) against a minimum of 14.5% and core capital / risk weighted assets at 7.0% against a minimum of 10.5%.

The Board and management have put in place a business plan which targets to grow the balance sheet and turn around to profitability in 2021. The bank plans to leverage on the digital banking platform and product innovation to increase customer numbers and grow non funded income. The bank also plans to significantly grow its deposits and net advances to increase interest revenue. Specific marketing and promotional initiatives will be implemented to ensure the bank taps cheaper deposits through the retail branch network and digital platforms and improve both cost of funding and liquidity. Consolidated Bank Kenya limited, being a state corporation, efforts will be made to ensure it taps cheaper deposits from state corporations and other government agencies.

Raising fresh capital to finance growth and maintain healthy prudential ratios is of paramount importance. The Board is engaging the National Treasury and other potential shareholders to inject additional capital in the bank to ensure compliance with the prudential capital ratios. The National Treasury, the majority shareholder with 93.4%, is committed to continue to support the bank to meet regulatory capital ratios and implement the 2021 turnaround strategy.

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

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

Approved by the board of directors on 18 March .... **2021 and signed on its behalf by:**

--	------------------------------------
Peter Musei	**Dr. Nathan Psiwa**
Chairman	**Director**

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

DIRECTORS' REMUNERATION
FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

Contract of Service

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

The Chief Executive Officer has a three-year renewable contract of service with Consolidated Bank of Kenya Limited starting 9 March 2015. The contract was renewed for a final term of three years with effect from 10th April 2018 and ended on 09 April 2021.

Changes to Directors' Remuneration

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

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

During the Annual General Meeting held virtually on 23 September 2020, the shareholders approved the payment of Directors' fees for the year ended 31 December 2021 in accordance with the guidelines provided by the State Corporations Advisory Committee and the Salaries and Remuneration Commission.

The following tables shows a single figure remuneration for the CEO and Non-Executive Directors in respect of qualifying services for the year ended 31 December 2020 together with the comparative figures for 2019.The aggregate Directors emoluments are shown in note 17.

For the year ended 31 December 2020	Category	Gross Payments KShs' 000	Honorarium KShs' 000	Allowances KShs' 000	Total KShs' 000
Peter Musei-(Appointed on 7 August 2020)	Chairman Non-Executive	-	722	258	980
Dr. Iyaya Wanjala (Term ended on 8 August 2020)		-	1,702	310	2,012
Thomas Kiyai	Chief Executive Officer	21,580	-	-	21,580
Geoffrey Malombe-Representing Cabinet Secretary National Treasury	Non- Executive	-	600	457	1,057
Moses Cheseto-Alternate to Managing Trustee NSSF	Non- Executive	-	600	340	940
Hardlyne Lusui	Non- Executive	-	955	1,289	2,244
Dr. Kennedy Otiso	Non- Executive	-	689	1,410	2,099
Miriam Cherogony	Non- Executive	-	689	492	1,181
Hon. Yusuf Chanzu	Non- Executive	-	690	1,077	1,767
Dr. Nathan Psiwa	Non- Executive	-	748	582	1,330
Total		21,580	7,395	6,215	35,190

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

DIRECTORS' REMUNERATION (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

For the year ended 31 December 2019

	Category	Gross Payments KShs' 000	Honorarium KShs' 000	Allowances KShs' 000	Total KShs' 000
Dr. Iyaya Wanjala(Appointed on 9 November 2018)	Chairman Non-Executive	-	1,800	627	2,427
Thomas Kiyai	Chief Executive Officer	21,580	-	-	21,580
George Omino-Representing Cabinet Secretary National Treasury	Non-Executive	-	550	302	852
Moses Cheseto-Alternate to Managing Trustee- NSSF	Non-Executive	-	600	258	858
Hardlyne Lusui- (Appointed on 21 December 2018)	Non-Executive	-	265	1,159	1,424
Dr. Kennedy Otiso-(Appointed on 13 November 2018)	Non-Executive	-	600	1,689	2,289
Miriam Cherogony (Appointed on 13 November 2018)	Non-Executive	-	600	508	1,108
Hon. Yusuf Chanzu (Appointed on 14 November 2018)	Non-Executive	-	600	1,728	2,328
Dr. Nathan Psiwa (Appointed on 19 December 2018)	Non-Executive	-	621	570	1,191
Total		21,580	5,636	6,841	34,057

REPORT OF THE AUDITOR-GENERAL
ON CONSOLIDATED BANK OF KENYA LIMITED FOR THE PERIOD ENDED 31 DECEMBER, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Consolidated Bank of Kenya Limited set out on pages 32 to 118, which comprise the Group and the Bank statements of financial position as at 31 December, 2020, statements of profit or loss and other comprehensive income, statements of changes in equity and the statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Ernst & Young LLP, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Consolidated Bank of Kenya Limited as at 31 December, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Kenya Companies Act, 2015.

Basis for Opinion

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

Emphasis of Matter

Material Incertainty Related to Going Concern

As previously reported, the Bank continued to incur losses in the year under review of Ksh. 277,073,000 (2019-loss Kshs.530, 199,000), resulting into a reported accumulated deficit of Kshs. 2,891,962,000 (2019-Kshs. 2,562,072,000) as at 30th June, 2020. Further, Note 9 to the financial statements indicates that the Bank's total capital to risk weighted assets ratio was 9.2 % (2019-13.5%) against a regulatory minimum ratio of 14.5%. These conditions alongside other matters disclosed under Note 9 are indicative of the Bank's inability to continue as a going concern.
My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Information

The Directors are responsible for the other information. The other information comprises the Bank information, corporate governance and the report of the Directors as required by the Kenya Companies Act, 2015. The other information does not include the financial statements and the auditor's report thereon.
My opinion on the financial statement does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.
Basis for Conclusion
The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND OVERALL GOVERNANCE.

Conclusion

As required by Section 7(1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that the internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Kenya Companies Act, 2105, I report based in my audit, that:

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

ii. In my opinion, adequate accounting records have been kept by the Bank, so far as appears from the examination of those records; and,

iii. The Bank financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the management is aware of the intention to liquidate the Bank or cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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

Auditor-General's Responsibilities for the Audit

The audit 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 my opinion in accordance with the provisions of Section 48 of the Pubic Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness 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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.
Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in

order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I 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 my 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit 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.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Bank to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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

Nancy Gathungu
AUDITOR-GENERAL

Nairobi
3rd June, 2021

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs'000	2019 KShs'000
INTEREST INCOME	12	1,064,829	1,216,404
INTEREST EXPENSE	13	(421,380)	(674,955)
NET INTEREST INCOME		643,449	541,449
Fee and commission income	14	292,202	356,171
Foreign exchange trading income	15	19,943	21,715
Other operati ng income	16	342,939	313,519
OPERATING INCOME		1,298,533	1,232,854
Operating expenses	17	(1,330,984)	(1,334,823)
Credit loss expense on loans and advances	25	(226,374)	(416,005)
Credit loss expense on balances due from banking institutions	22(a)	(53)	(27)
LOSS BEFORE TAXATION		(258,878)	(518,001)
INCOME TAX CHARGE	19(a)	(15,304)	(13,291)
LOSS FOR THE YEAR		(274,182)	(531,292)
OTHER COMPREHENSIVE INCOME			
Items that may not be reclassified subsequently to profit or loss:			
Net gain on equity instruments designated at fair value through other comprehensive income	27	542	651
Surplus on revaluation of property and equipment	35	113,850	-
Total other comprehensive i ncome for the year, net of tax		114,392	651
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(159,790)	(530,641)
LOSS PER SHARE		KShs	KShs
Basic and diluted	20	(1.83)	(3.54)

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

BANK STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs'000	2019 KShs'000
INTEREST INCOME	12	1,064,829	1,216,404
INTEREST EXPENSE	13	(421,380)	(674,955)
NET INTEREST INCOME		643,449	541,449
Fee and commission income	14	272,745	344,019
Foreign exchange trading income	15	19,943	21,715
Other operating income	16	342,939	313,519
		1,279,076	1,220,702
OPERATING INCOME			
Operating expenses	17	(1,314,418)	(1,321,578)
Credit loss expense on loans and advances	25	(226,374)	(416,005)
Credit loss expense on balances due from banking institutions	22(a)	(53)	(27)
LOSS BEFORE TAXATION		(261,769)	(516,908)
INCOME TAX CHARGE	19(a)	(15,304)	(13,291)
LOSS FOR THE YEAR		(277,073)	(530,199)
OTHER COMPREHENSIVE INCOME			
Items that may not be reclassified subsequently to profit or loss:			
Net gain on equity instruments designated at fair value through other comprehensive income	27	542	651
Surplus on revaluation of property and equipment	35	113,850	-
Total other comprehensive income for the year, net tax		114,392	651
TOTAL COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(162,681)	(529,548)
LOSS PER SHARE		KShs	KShs
Basic and diluted	20	(1.85)	(3.54)

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

GROUP STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2020

ASSETS	Notes	31 December 2020 KShs'oo	31 December 2019 KShs'oo
Cash and balances with Central Bank of Kenya	21	702,185	906,420
Balances due from banking institutions	22(a)	279,515	179,032
Financial assets at amortised cost	23	1,972,383	2,082,370
Loans and advances to customers	24	8,465,014	7,369,033
Other assets	26(a)	305,876	271,469
Equity instruments at fair value through other comprehensive income	27	7,920	7,378
Taxation recoverable	19(c)	6,483	6,204
Property and equipment and Right of Use Assets	28(a)	929,775	815,734
Intangible assets	29(a)	208,415	217,542
Leasehold land	30	6,299	6,469
TOTAL ASSETS		12,883,865	11,861,651
LIABILITIES AND SHAREHOLDERS ' FUNDS			
LIABILITIES			
Deposits and balances due to banking institutions	22(b)	63,276	23,814
Balances due to Central Bank of Kenya	22(c)	1,300,000	720,000
Customer deposits	31	9,223,932	8,771,860
Other liabilities	32	461,733	351,263
TOTAL LIABILITIES		11,048,941	9,866,937
SHAREHOLDERS ' FUNDS			
Share capital	34(b)	3,719,530	3,719,530
Revaluation surplus	35	465,672	361,888
Accumulated deficit	36	(2,894,138)	(2,567,139)
Statutory reserve	37	536,808	473,925
Fair value reserve	38	7,052	6,510
TOTAL SHAREHOLDERS ' FUNDS		1,834,924	1,994,714
TOTAL LIABILITIES AND SHAREHOLDERS ' FUNDS		12,883,865	11,861,651

The financial statements on pages 32 to 118 were approved and authorised for issue by the Board of Directors On.............18 March.........2021 and were signed on its behalf by:

Chairman – Peter Musei

Director – Dr. Nathan Psiwa

Chief Executive Officer - Thomas Kiyai

Company Secretary -Wakonyo Igeria

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

BANK STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Notes	31 December 2020 KShs'000	31 December 2019 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	21	702,185	906,420
Balances due from banking institutions	22(a)	279,515	173,909
Financial assets at amortised cost	23	1,972,383	2,082,370
Loans and advances to customers	24	8,465,014	7,369,033
Other assets	26(a)	305,856	271,469
Due from subsidiary	43	7,555	17,079
Equity instruments at fair value through other comprehensive income	27	7,920	7,378
Taxation recoverable	19(c)	6,483	6,204
Property and equipment and Right of Use Assets	28(b)	925,819	810,437
Intangible assets	29(b)	206,714	214,842
Leasehold land	30	6,299	6,469
TOTAL ASSETS		12,885,743	11,865,610
LIABILITIES AND SHAREHOLDERS ' FUNDS			
LIABILITIES			
Deposits and balances due to banking institutions	22(b)	63,276	23,814
Balances due to Central Bank of Kenya	22(c)	1,300,000	720,000
Customer deposits	31	9,223,932	8,771,860
Other liabilities	32	461,435	350,155
TOTAL LIABILITIES		11,048,643	9,865,829
SHAREHOLDERS ' FUNDS			
Share capital	34(b)	3,719,530	3,719,530
Revaluation surplus	35	465,672	361,888
Accumulated deficit	36	(2,891,962)	(2,562,072)
Statutory reserve	37	536,808	473,925
Fair value reserve	38	7,052	6,510
TOTAL SHAREHOLDERS ' FUNDS		1,837,100	1,999,781
TOTAL LIABILITIES AND SHAREHOLDERS ' FUNDS		12,885,743	11,86 5,610

The financial statements on pages 32 to 118 were approved and authorised for issue by the Board of Directors

On 18 March 2021 and were signed on its behalf by:

Chairman-Peter Musei

Director – Dr. Nathan Psiwa

Chief Executive Officer - Thomas Kiyai

Company Secretary -Wakonyo Igeria

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Share capital	Revaluation surplus	Accumulated deficit	Statutory reserve	Fair value reserve	Total
		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2019		2,119,530	370,509	(2,061,222)	490,679	5,859	925,355
Capital injection		1,600,000	-	-	-	-	1,600,000
Loss for the year		-	-	(531,292)	-	-	(531,292)
Other comprehensive income		-	-	-	-	651	651
		-	-	-	-	-	
Transfer of excess depreciation	36	-	(12,316)	12,316	-	-	-
Deferred tax on excess depreciation	36	-	3,695	(3,695)	-	-	-
Transfer to statutory reserve	37	-	-	16,754	(16,754)	-	-
At 31 December 2019		3,719,530	361,888	(2,567,139)	473,925	6,510	1,994,714
At 1 January 2020		3,719,530	361,888	(2,567,139)	473,925	6,510	1,994,714
Loss for the year		-	-	(274,182)	-	-	(274,182)
Other comprehens ive income		-	113,850	-	-	542	114,392
Transfer of excess depreciation	35	-	(14,380)	14,380	-	-	-
Deferred tax on excess depreciation	35	-	4,314	(4,314)	-	-	-
Transfer to statutory reserve	37	-	-	(62,883)	62,883	-	-
At 31 December 2020		3,719,530	465,672	(2,894,138)	536,808	7,052	1,834,924

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Share capital	Revaluation surplus	Accumulated deficit	Statutory reserve	Fair value reserve	Total
		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2019		2,119,530	370,509	(2,061,222)	490,679	5,859	925,355
Elimination of subsidiary accumulated losses				3,974			3,974
Capital injection		1,600,000	-	-	-	-	1,600,000
Loss for the year		-	-	(530,199)	-	-	(530,199)
Other comprehensive loss						651	651
Transfer of exce ss depreciation	36	-	(12,316)	12,316	-	-	-
Deferred tax on excess depreciation	36	-	3,695	(3,695)	-	-	-
Transfer to statutory reserve	37	-	-	16,754	(16,754)	-	-
At 31 December 2019		3,719,530	361,888	(2,562,072)	473,925	6,510	1,999,781
At 1 January 2020		3,719,530	361,888	(2,562,072)	473,925	6,510	1,999,781
Elimination of subsidiary accumulated losses							
Loss for the year		-	-	(277,073)	-	-	(277,073)
Other comprehensive income		-	113,850	-	-	542	114,392
Transfer of excess depreciation	36	-	(14,380)	14,380	-	-	-
Deferred tax on excess depreciation	36	-	4,314	(4,314)	-	-	-
Transfer to statutory reserve	37	-	-	(62,883)	62,883	-	-
At 31 December 2020		3,719,530	465,672	(2,891,962)	536,808	7,052	1,837,100

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES
GROUP STATEMENT OF CASH FLOWS
AS AT 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
CASH FLOWS GENERATED FROM OPERATIONS			
Cashflows (used in)/ generated from operations	39(a)	(193,307)	1,085,606
Tax paid	19(c)	(15,583)	(16,686)
Net cashflows from operating activities		(208,890)	1,068,920
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	28(a)	(105,587)	(23,689)
Proceeds on sale of property and equipment	16	365	225
Purchase of intangible assets	29	(71,304)	(139,757)
Net cash used in investing activities		(176,526)	(163,220)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares		-	1,600,000
Repayment of principal and interest on borrowings	33	-	(1,835,279)
Repayment of principal portion of lease liability	28(b)	(83,203)	(61,205)
Repayment of interest portion on lease liability	28(b)	(14,803)	(13,797)
Net cash used in financing activities		(98,006)	(310,281)
NET DECREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR		(483,422)	595,418
CASH AND CASH EQUIVAL ENTS AT 1 JANUARY		(257,800)	(853,219)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	39(b)	(741,222)	(257,800)

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

BANK STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cashflows (used in)/generated from operations	39(a)	(188,336)	1,072,995
Tax paid	19(c)	(15,583)	(16,686)
Net cashflows (used in)/from operating activities		(203,919)	1,056,309
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	28	(105,434)	(17,700)
Proceeds on sale of property and equipment	16	365	226
Purchase of intangible assets	29	(71,304)	(138,259)
Net cash used in investing activities		(176,373)	(155,733)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares		-	1,600,000
Repayment of principal and interest on borrowings	34	-	(1,835,279)
Repayment of principal portio n of lease liability	28(b)	(83,203)	(61,205)
Repayment of interest portion on lease liability	28(b)	(14,803)	(13,797)
Net cash used in financing activities		(98,006)	(310,281)
NET DECREASE IN CASH AND CASH			
EQUIVALENTS DURING THE YEAR		(478,298)	590,295
CASH AND CASH EQUIVALENTS AT 1 JANUARY		(262,924)	(853,219)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	39(b)	(741,222)	(262,924)

1.REPORTING ENTITY

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

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

The consolidated financial statements for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the directors on 18 March 2021.

2.BASIS OF PREPARATION

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

3.STATEMENT OF COMPLIANCE

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

4.PRESENTATION OF FINANCIAL STATEMENTS

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

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

5.CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES
5.1NEW AND AMENDED STANDARDS INTERPRETATION

In these financial statements the Group has applied COVID-19-Related Rent Concessions Amendment to IFRS 16 for the first time.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the financial statements of the Group. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

The following amendments became effective during the period:

New standards or amendments	Effective for annual period beginning or after
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
Amendments to References toConceptual Framework in IFRS Standards	1 January 2020
COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020

Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification. The Bank enjoyed COVID-19 relief for some of its leased premises and the same has been credit to the Bank profit and loss.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

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

b)Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

c)There is no substantive change to other terms and conditions of the lease

The Group applied the practical expedience to all rent concessions that meet the conditions stemming from COVID-19.

The group benefited from a 20% waiver of rent due on Harambee branch for a period of three months from July to September 2020. The bank also benefited from a 25% waiver on rent due for Kitengela and Umoja branches for the period June to August 2020. The proportion and amount of waiver granted under each branch is shown below

PREMISES	PERCENTAGE WAIVER	PERIOD	AMOUNT KSHS
Harambee	20%	July – September	670,414
Kitengela	25%	June – August	225,341
Umoja	25%	June – August	242,291

The waiver of lease payments has been accounted for as a negative variable lease payment in profit or loss. The bank has derecognised the part of the lease liability that has been extinguished by the forgiveness of lease payments, consistent with the requirements of IFRS 9:3.3.1.

Standards issued but not yet effective

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

New standards or amendments	Effective for annual period beginning or after
Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Onerous Contracts Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter	1 January 2022
AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
AIP IAS 41 Agriculture – Taxation in fair value measurements	1 January 2022
IFRS 17 Insurance Contracts	1 January 2023
Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2023

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

6.0 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2020. Consolidated Bank consolidates a subsidiary when it controls it. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including; the purpose and design of the investee, the relevant activities and how decisions about those activities are made and whether the Bank can direct those activities, contractual arrangements such as call rights, put rights and liquidation rights, whether the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

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

Investments in subsidiary companies

Investments in subsidiary companies are stated at cost less impairment loss where applicable. The dormant subsidiaries listed in note 40 have no assets and liabilities and are at nil value. Details of the subsidiaries and how they are related to the bank are also disclosed in note 40.

7SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
7.1INTEREST INCOME AND EXPENSE

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

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

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

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

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

7.2FEES AND COMMISSIONS INCOME AND OTHER FEES AND COMMISSIONS EXPENSE

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

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7.2 FEES AND COMMISSIONS INCOME AND OTHER FEES AND COMMISSIONS EXPENSE (CONTINUED)

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

7.3 PROPERTY, EQUIPMENT, INTANGIBLE ASSETS AND RIGHT OF USE ASSETS (LEASES)

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

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

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

Addition and disposal

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

7.3.1 DEPRECIATION

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

Fixtures, fittings, equipment & ATMs	5 years
Leasehold improvements	8 years or lease period if shorter
Computers	3 years
Motor vehicles	4 years
Buildings	40 years or land lease period if shorter

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

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

7.3.2INTANGIBLE ASSETS - COMPUTER SOFTWARE COSTS

Costs incurred on computer software are initially accounted for at cost and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Software is amortised on a straight -line basis and the amortisation expenses are recognised in profit or loss over its estimated useful life, from the date it is available for use. The estimated useful life of software for the current and comparative period is 5 years. The amortisation method, useful life and the residual value are reviewed at each financial year-end and adjusted, if appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation method or period, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset
The carrying amount and amortisation are disclosed in note 29.
Derecognition of intangible assets

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

7.3.3 LEASES (POLICY APPLICABLE AFTER 1 JANUARY 2019)

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

The Bank as lessee

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

Right-of-use assets

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

Lease liabilities

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

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

Bank as a lessor

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

7.3.4ESTIMATING THE INCREMENTAL BORROWING RATE

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

7.3.5 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7.4FOREIGN CURRENCIES

7.4.1 FUNCTIONAL AND PRESENTATION CURRENCY

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

7.4.2 TRANSACTIONS AND BALANCES

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

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

7.4.3 FOREIGN EXCHANGE CONTRACTS

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

7.5 TAXATION

7.5.1 CURRENT TAX

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

7.5.2 DEFERRED INCOME TAX

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

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

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

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
7.5TAXATION (CONTINUED)
7.5.2DEFERRED INCOME TAX (CONTINUED)

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

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

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

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

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

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

Value Added Tax

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

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

7.6 FINANCIAL INSTRUMENTS
7.6.1 DATE OF INITIAL RECOGNITION

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

7.6.2 INITIAL MEASUREMENT OF FINANCIAL INSTRUMENTS

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in notes 7.6.4 to 7.6.9. The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
7.6FINANCIAL INSTRUMENTS (CONTINUED)
7.6.3DAY 1 PROFIT OR LOSS

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

7.6.4 CLASSIFICATION AND MEASUREMENT

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

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

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

7.6.5 DUE FROM BANKS, LOANS AND ADVANCES TO CUSTOMERS, FINANCIAL INVESTMENTS AT AMORTISED COST

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

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

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

7.6.6 BUSINESS MODEL ASSESSMENT

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

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

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

7.6.7 SPPI TEST

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

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
7.6FINANCIAL INSTRUMENTS (CONTINUED)
7.6.8 EQUITY INSTRUMENTS AT FVOCI

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

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

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

Classification and measurement

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

i) Equity instruments

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

ii) Other financial liabilities

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

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

7.6.9 FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis or

- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy or

- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

7.7 IMPAIRMENT OF FINANCIAL ASSETS
7.7.1 OVERVIEW OF THE EXPECTED CREDIT LOSS – ECL PRINCIPLE

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in note 10.6.

7.7.2ECLS

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

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

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

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

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

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

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

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

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

The PD and LGD investment in government securities and bonds are considered negligible, approximating 0%. These are risk free instruments and there is no historical loss situation.
Undrawn Loan commitments guarantees and letters of credit
When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. Details of the gross carrying exposure and the corresponding ECL are disclosed in note 10.6

7.7.3 FORWARD LOOKING INFORMATION

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

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

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

Forecast macroeconomic data

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

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

Collateral valuation

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

7.7.4 DERECOGNITION OF FINANCIAL ASSETS

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

Financial assets whose original contractual terms have been modified, including those loans subject to forbearance strategies, oare modified instruments. Modifications may include changes to the tenor, cash flows and or interest rates among other factors. Where derecognition of financial assets is appropriate, the newly recognised residual loans are assessed to determine whether the assets should be classified as purchased or originated credit impaired assets (POCI).

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

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

Derecognition of financial assets

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

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement to the extent that an impairment loss has not already been recorded

7.7.5 WRITE OFF

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

7.7.6 REVOLVING CREDIT FACILITIES

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

7.8 FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE BANK

a) Classification and measurement
b) Derecognition of financial liabilities

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

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

7.9 STATUTORY RESERVE

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

7.10 CASH AND CASH EQUIVALENTS

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

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7.11 CONTINGENT LIABILITIES

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

7.12 EMPLOYEE BENEFIT COSTS

The Bank operates a defined contribution retirement benefit scheme for all its employees. The scheme is administered by an independent investment management company and is funded by contributions from both the Bank and employees.

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

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

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

7.13 DETERMINATION OF FAIR VALUE

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

Level 1 financial instruments: Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.

Level 2 financial instruments: Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.

Level 3 financial instruments: Those that include one or more unobservable input that is significant to the measurement as whole.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7.13 DETERMINATION OF FAIR VALUE (CONTINUED)

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

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

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

Once submitted, fair value estimates are also reviewed and challenged by the Risk and Finance functions. Fair value estimates are validated by;
- Benchmarking prices against observable market prices or other independent sources
- Re-performing model calculations
- Evaluating and validating input parameters

Model calibrations are challenged on a quarterly basis or when significant events in the relevant markets occur.

When relying on third-party sources (e.g., broker quotes, or other micro or macro-economic inputs), the Risk and Finance functions are also responsible for;
- Verifying and challenging the approved list of providers
- Understanding the valuation methodologies and sources of inputs and verifying their suitability for IFRS reporting requirements

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

The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

8. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Bank's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

8.1 IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

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

COVID-19 pandemic

The COVID-19 outbreak was first reported near the end of 2019. At that time, a cluster of cases displaying the symptoms of a 'pneumonia of unknown cause' were identified in Wuhan, the capital of China's Hubei province. On 31 December 2019, China alerted the World Health Organisation (WHO) of this new virus. On 30 January 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a 'Public Health Emergency of International Concern'. Since then, the virus has spread worldwide. On 11 March 2020, the WHO declared the COVID-19 outbreak to be a pandemic. COVID-19 triggered a global crisis like no other—a global health crisis that, in addition to an enormous human toll, is leading to the deepest global recession since the Second World War. pandemic has, with alarming speed, delivered a global economic shock of enormous magnitude, leading to steep recessions in many countries. The cross-border spillovers have disrupted financial and commodity markets, global trade, supply chains, travel, and tourism. Global GDP was expected to contract by 5.2 percent in 2020 - the deepest global recession in decades, despite unprecedented policy support.

Kenya's economy was performing well prior to the pandemic with accelerating growth and contained inflation. The COVID-19 pandemic was however expected to significantly reduce the growth in 2020 with IMF projecting a growth of 1% down from 5.4% in 2019. The Central Bank of Kenya on March 27th 2020 provided commercial banks and mortgage finance companies with guidelines on loan reclassification, and provisioning of extended and restructured loans as per the Banking Circular No 3 of 2020. To factor the impact of the pandemic on the IFRS 9 model the bank reviewed the forwarding looking information macroeconomic factor. The extension /moratoriums granted for various customers were considered in computing the exposure and default.

The Bank applied scenario weights of 80:10:10 downside, base and upside respectively based on qualitative management expectation of probabilities of macroeconomic projections remaining as - is, improving or deteriorating based on economic outlook as at December 2020. 80% was applied to the downside weight due to the current pandemic that is expected to increase the credit risk. On the upside scenario, a vaccine or sharp slowdown in the spreading of the virus globally and domestically will boost economic activity as economic activity normalizes. It is possible that, given ample support, MSMEs will expand capacity more rapidly, reducing the unemployment rate over time. Kenya's key agriculture, manufacturing and tourism sectors will benefit almost immediately. The KES could strengthen, which will help contain inflationary pressures brought by the improved economic activity. This may create room for further policy easing, further helping demand. It may also mean a more aggressive outlay of Kenya's BIG4 Agenda into the elections given the improved backdrop.

On the downside scenario, A further spreading of the virus deep into 2021 could damage the country's key agriculture and tourism sectors further. While these sectors have rebounded since the outbreak of the virus in Q1, a second wave in particularly Europe, its mains destination area for exports and important market for local tourism, could have devastating consequences for the local economy. As it is, unemployment in tourism appear to have skyrocketed while there is also evidence of large layoffs in the manufacturing sector. This will weigh on growth, and could also see inflation accelerate on the back of supply chain disruptions and weaker FX. While no immediate policy rate hike would be considered, the tightening of monetary policy could start sooner. Limited fiscal space would pose a substantial challenging to already constrained public finances. Debt is likely to soar further.

On the base scenario, Kenya's economic recovery began as early as May and is gaining more traction. A phased reopening of the economy, along with substantial monetary and fiscal stimulus is further supporting the economy. Inflation appears under control though the improved outlook has resulted in the CBK keeping the policy rate unchanged in recent months. Resilient exports and remittances, combined with a drop in imports, will likely see a smaller current account deficit this year. The economic recovery looks set to strengthen further in 2021 and beyond, particularly as Kenya looks to step up infrastructure investment ahead of the 2022 elections. Fiscal risks remain large. The shilling has limited downside risks amid ample FX reserves. FX reserves are currently still healthy above USD9bn and more worth more than 5 months of imports though it seems unlikely that the CBK would sell too much of it to defend any particular level of the currency. Instead, we believe the CBK will likely intervene from time to time in the market by mopping up excess domestic liquidity and also potentially through other less orthodox means to stem any major pressure on the shilling over the near term. The CBK may allow more currency flexibility should they be close to securing an IMF Standby Facility.

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

8.1 IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS (CONTINUED)

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

As regards Significant increase in Credit Risk (SICR) for facilities restructured/granted holidays, the Bank complied with the guidance issued by Central Bank of Kenya providing flexibility to banks with regard to requirements for loan classification and provisioning for loans that were performing on March 2 2020 and whose repayment period was extended or were restructured due to the pandemic.

As at 31 December 2020, the bank had restructured/granted holidays and relief totalling KShs 2. billion. The restructures / reliefs mainly comprised of repayment holidays ranging from three to twelve months. Below is a breakdown of the reliefs granted by sectors as at 31 December 2020.

Sector	Number of accounts	Amount KShs '000
Agriculture	2	4,475
Building and Construction	21	80,652
Energy and Water	2	17,322
Financial Services	14	24,585
Manufacturing	5	37,260
Mining and Quarrying	1	589
Personal Household	74	80,717
Real Estate	59	491,879
Tourism, Restaurant and Hotels	15	30,389
Trade	385	1,141,940
Transport and Communication	32	114,711
Total	610	2,024,520

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

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

8.1 GOING CONCERN ASSESSMENT

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

8.3 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

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

8. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

8.4 CONTINGENT LIABILITIES

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation proceedings in Kenya arising in the ordinary course of the Bank's business. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates. The details of the cases and resultant contingent liability are disclosed in note 42.

8.5.0 TAXATION

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

8.6 ESTIMATING THE INCREMENTAL BORROWING

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

8.7. EFFECTIVE INTEREST RATE (EIR) METHOD

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

8.8 OVERDRAFTS AND OTHER REVOLVING FACILITIES

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

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other

lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage.

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

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

9 GOING CONCERN

During the year ended 31 December 2020, the Group incurred a net loss of KShs 274.2 million (2019: KShs 531.3 million) and the Bank incurred a net loss of KShs 277.07 million (2019: and KShs 530.2 million). The accumulated losses as at 31

December 2020 were KShs 2.894 billion for the Group (2019: KShs 2.567 billion) and KShs 2.892 billion for the Bank (2019: KShs 2.562 billion).

The bank regulatory capital ratios as at 31 December 2020 were also below the regulatory minimum as illustrated below:

Prudential Capital Ratio	2020	2019	Minimum Capital Ratio
Core Capital to Deposits	9.0%	13.10%	8.00%
Core capital to Risk weighted assets	7.0%	11.40%	10.50%
Total Capital to Risk weighted assets	9.2%	13.50%	14.50%

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

However, the Bank realised a reduction of 49% in operating losses despite the difficult operating environment and disruptions arising from the COVID-19 pandemic. The Bank's total assets grew by 8% to KShs 12.8 billion (2019: KShs 11.9 billion). The net interest income increased by 19% to KShs 643 million from KShs 541 million the previous year due to the reduction in interest expense by 38% attributed to the reduced interest on borrowing following the repayment of the corporate bond of KShs 1.52 billion in October 2019. Total non-funded income declined by 6% to KShs 635 million from KShs 679 million due to 21% decline in fees and commission income to KShs 272 million from KShs 344 million and 8% decline in foreign exchange income due to the impact of disruptions from the COVID-19 pandemic. The other fees and commission however increased by 9% to KShs 342 million from KShs 313 million in 2019 due to increase in write backs from recovery of non-performing loans by 21% to KShs 272 million from KShs 225 million in 2019.

The Board and management have put in place a business plan which anticipate the bank to turn around to profitability in 2021. The bank plans to leverage on the digital banking platform and product innovation to increase customer numbers and grow non funded income. The bank also plans to significantly grow its deposits and net advances to increase interest revenue. Specific marketing and promotional initiatives will be implemented to ensure the bank taps cheaper deposits through the retail branch network and digital platforms and improve both cost of funding and liquidity. Consolidated Bank Kenya limited, being a state corporation, efforts will be made to ensure it taps cheaper deposits from state corporations and other government agencies.

Raising fresh capital to finance growth and maintain healthy prudential ratios is of paramount importance. The Board is engaging the National Treasury and other potential shareholders to inject additional capital in the bank to ensure compliance with the prudential capital ratios. The National Treasury the majority shareholder with 93.4% is committed to continue to support the bank to meet regulatory capital ratios and implement the 2021 turnaround strategy.

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

10. RISK MANAGEMENT OBJECTIVES AND POLICIES

10.1RISK

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

10.2 RISK MANAGEMENT STRUCTURE

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

The Board provides written principles for overall risk management as well as written policies covering specific risk areas. The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and best market practices. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. This committee is assisted in these functions by the Internal Audit Function. The Internal Audit Function undertakes reviews of risk management controls and procedures, the results of which are reported to the committee.

10.3 Risk Mitigation and Risk Culture

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

10.4 RISK MEASUREMENT AND REPORTING SYSTEMS

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.
Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

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

10. RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

10.5 EXCESSIVE RISK CONCENTRATION

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.
In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

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

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

10.6 CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Bank's loans and advances to customers and other Banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances. The Bank is also exposed to other credit risks arising from its trading activities including derivatives.

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

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

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

10.6.1 MANAGEMENT OF CREDIT RISK

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

The committee assisted by the credit department is responsible for the management of the Bank's credit risk including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are delegated to the head of credit and the credit committee while larger facilities require approval by the Board of Directors.
- Limiting concentrations of exposure to counterparties, geographies and industries for loans and advances.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank credit committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to branches to promote best practice throughout the Bank in the management of credit risk.

10. RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

10. 5 EXCESSIVE RISK CONCENTRATION

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.
In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

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

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

10.6 CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Bank's loans and advances to customers and other Banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances. The Bank is also exposed to other credit risks arising from its trading activities including derivatives.

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

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

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

10.6.1 MANAGEMENT OF CREDIT RISK

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

The committee assisted by the credit department is responsible for the management of the Bank's credit risk including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are delegated to the head of credit and the credit committee while larger facilities require approval by the Board of Directors.
- Limiting concentrations of exposure to counterparties, geographies and industries for loans and advances.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank credit committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to branches to promote best practice throughout the Bank in the management of credit risk.

10.RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

10.6.2 CREDIT RISK MEASUREMENT

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

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

The Bank assesses the probability of default of individual borrowers using internal rating methods tailored to the various categories of the borrower. In assessing the credit quality of the customer the Bank takes into account the customers financial position, past experience and other industry specific factors. The credit risk measurements are embedded in the

Bank's daily operational management and closely aligned to the Central Bank of Kenya loan classifications. Risk limit control and mitigation policies

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

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

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

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

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

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

10. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.6.3 IMPAIRMENT ASSESSMENT

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

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

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

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

10.6.3.1 LOANS AND ADVANCES

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

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.

- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles. Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.

- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

10. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.6 CREDIT RISK (CONTINUED)

Maximum exposure to credit risk before collateral held	2020		2019	
	KShs'000	%	KShs'000	%
Credit Exposures				
On – balance sheet items				
Cash and balances with the CBK	401,389	3	610,130	5
Government securities	1,972,383	13	2,082,370	18
Balances due from banking institutions	279,019	2	173,909	1
Loans and advances to customers	8,465,014	58	7,369,033	63
Uncleared items and other assets	149,428	1	126,886	1
	11,267,233	77	10,531,732	88
Off-balance sheet items				
Acceptances and letters of credit	100,392	1	36,467	1
Guarantees	1,001,865	7	721,845	5
Undrawn formal stand-by facilities, credit lines and other commitments to lend	2,247,805	15	618,965	5
	3,350,062	23	1,377,277	12
At 31 December	14,617,295	100	11,914,132	100

The above represents the worst-case scenario of credit exposure for 31 December 2020 and 2019, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures, set out above are based on gross carrying amount as reported on the statement of financial position.

Loans and advances to customers comprise 58% (2019 - 63%) of the total maximum exposure. The fair value of collateral held in respect of assets subject to credit risk as at 31 Decembers 2020 was KShs 26,159,822,905(2019- KShs 24,512,923,720).

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

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

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

10. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.6 CREDIT RISK (CONTINUED)

The table below shows the ECL charges on financial instruments for the year 2020 recorded in the income statement:

Credit loss expense	Stage 1		Stage 2		Stage 3	Total
	collective	individual	collective	individual		
Cash and balances with Central Bank of Kenya	-		-	-	-	-
Financial investments at amortised cost	-	-	-	-	-	=
Balances due from banking institutions	-	-	-	-	-	-
Loans and advances to customers	-	-	14,315	-	212,059	226,374
Total Impairment loss	-	-	14,315	-	212,059	226,374

The table below shows the ECL charges on financial instruments for the year 2019 recorded in the income statement:

Credit loss expense	Stage 1		Stage 2		Stage 3	Total
	collective	individual	collective	individual		
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-
Financial investments at amortised cost	-	-	-	-	-	-
Balances due from banking institutions	-	-	-	-	-	-
Loans and advances to customers	3,818	-	-	2,730	409,457	416,005
Total Impairment loss	3,818	-	-	2,730	409,457	416,005

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

Loans and Advances to customers

Loans and receivables neither past due nor impaired

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

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

Loans with renegotiated terms

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

10.RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.6 CREDIT RISK (CONTINUED)

WRITE-OFF POLICY

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

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

The table below shows the credit quality and the maximum exposure to credit risk based on the bank's internal credit rating system and year end stage classification. The amounts presented are gross of impairment allowances. An analysis of the changes in the gross carrying amount and the corresponding ECL allowance in relation to loans and advances to customers as at 31 December 2019 was as follows

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Gross carrying amount as at 1 January 2019	6,365,664	900,349	1,692,648	8,958,661
New assets originated or purchased (excluding write off)	588,766	111,146	-	699,912
Assets derecognised or repaid	(993,232)	(294,585)	(282,185)	(1,570,002)
Transfer to stage 1	144,366	(113,565)	(30,801)	-
Transfer to stage 2	(522,014)	615,880	(93,866)	-
Transfer to stage 3	(386,399)	(485,133)	871,532	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	(264,941)	(264,941)
Foreign exchange adjustment	-	-	-	-
As at 31 December 2019	5,197,151	734,092	1,892,387	7,823,630

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

10. RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

10. 6CREDIT RISK (CONTINUED)

An analysis of the changes in the gross carrying amount and the corresponding ECL allowance in relation to loans and advances to customers as at 31 December 2020 is as follows

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Gross carrying amount as at 1 January 2020	5,197,151	734,092	1,892,387	7,823,630
New assets originated or purchased (excluding write off)	3,123,171	203,067	-	3,326,238
Assets derecognised or repaid	(1,525,680)	(419,362)	(330,747)	(2,275,789)
Transfer to stage 1	76,198	(71,256)	(4,942)	-
Transfer to stage 2	(208,347)	213,170	(4,823)	-
Transfer to stage 3	(35,600)	(43,904)	79,504	-
Changes to contractual due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	(28,112)	(28,112)
Foreign exchange adjustm ent	-	-	-	-
As at 31 December 2020	6,626,893	615,807	1,603,271	8,845,967

ECL for loans and advances

ECL allowance as at 1 January 2019	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Off-Balance sheet KShs '000	Total KShs '000
as per IFRS 9	102,084	12,893	392,873	21,152	529,002
Reclassification	(8,563)	3,273	4,615	675	-
New assets originated or purchased (excluding write off)	5,916	17,535		3,107	26,558
Assets derecognised or repaid	(42,046)	(11,444)	-	(11,487)	(64,977)
Transfer to stage 1	1,509	(577)	(932)	-	-
Transfer to stage 2	(2,956)	5,912	(2,956)	-	-
Transfer to stage 3	(57,622)	(70,000)	127,622	-	-
Impact of year end ECL of exposures transferred between stages during the year	65,705	74,546	88,704	-	228,955
Unwind of discount	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting to derecognition	-	-	-	-	-
Recoveries	-	-	-	-	-
Amounts written off	-	-	(264,941)	-	(264,941)
Foreign exchange adjustment	-	-	-	-	-
As at 31 December 2019	64,027	32,138	344,985	13,447	454,597

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

10.RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.6 CREDIT RISK (CONTINUED)

ECL FOR LOANS AND ADVANCES

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Off-Balance sheet KShs'000	Total KShs '000
ECL allowance as at 1 January 2020 as per IFRS 9	64,027	31,206	345,917	13,447	454,597
Reclassification					
New assets originated or purchased	39,200	6,919	-	4,263	50,382
Assets derecognised or repaid (excluding write off)	(21,305)	(16,422)	(44,743)	(13,447)	(95,917)
Transfer to stage 1	2,600	(2,481)	(119)	-	-
Transfer to stage 2	(2,683)	5,639	(2,956)	-	-
Transfer to stage 3	(396)	(7,458)	7,854	-	-
impact of year end ECL of exposures transferred between stages during the year	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting to derecognition	-	-	-	-	-
Recoveries	-	-	-	-	-
Amounts written off	-	-	(28,112)	-	(28,112)
Foreign exchange adjustment	-	-	-	-	-
As at 31 December 2020 (note 25)	81,443	17,403	277,841	4,263	380,950

10, RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

10.6 CREDIT RISK (CONTINUED)

10.6.3.2 FINANCIAL INVESTMENTS AT AMORTIZED COST

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

An analysis of the changes in the gross carrying amount and the corresponding ECL as at 31 December 2019 was as follows

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Gross carrying amount as at 1 January 2019	2,190,093	-	-	2,190,093
New assets purchased	-	-	-	-
Assets derecognised or matured	(107,723)	-	-	(107,723)
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Changes due to modifications not derecognised	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustment	-	-	-	-
At 31 December 2019	2,082,370	-	-	2,082,370

An analysis of the changes in the gross carrying amount and the corresponding ECL as at 31 December 2020 is as follows

	Stage 1 KShs '000	Stage 2 KShs '000	Stage3 KShs '000	Total KShs '000
Gross carrying amount as at 1 January 2020	2,082,370	-	-	2,082,370
New assets purchased	300,000	-	-	300,000
Assets derecognised or matured	(409,987)	-	-	(409,987)
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	--	-
Changes due to modifications not derecognised	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustment	-	-	-	-
At 31 December 2020	1,972,383	-	-	1,972,383

ECL on Financial investment at amortized cost as at 31 December 2019 and as 31 December 2020 rounds off to zero hence no tabular presentation. This also applies to ECL on government securities.

10,RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

10.6 CREDIT RISK (CONTINUED)

10.6.3.3 DUES FROM OTHER BANKING INSTITUTIONS

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

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

	Stage1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Gross Carrying amount 1 January 2019	119,480	-	-	119,480
Net movement for the year	64,195	-	-	64,195
Assets derecognised or repaid (Excluding write offs)	(4,556)	-	-	(4,556)
Transfer stage 1		-	-	-
Transfer stage 2	-	-	-	-
Transfer stage 3	-	-	-	-
Changes to contractual cashflows due to modification not resulting to derecognition	-	-	-	-
Amount written off	-	-	-	-
Foreign currency adjustment	-	-	-	-
As at 31 December 2019	179,119	-	-	179,119

RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

10.6.3.3 DUES FROM OTHER BANKING INSTITUTIONS (CONTINUED)

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Gross Carrying amount 1 January 2020	179,119	-	-	179,119
Net movement for the year	100,536	-	-	100,536
Assets derecognised or repaid (Excluding write offs)	-	-	-	-
Transfer stage 1	-	-	-	-
Transfe r stage 2	-	-	-	-
Transfer stage 3	-	-	-	-
Changes to contractual cashflows due to modification not resulting to derecognition	-	-	-	-
Amount written off	-	-	-	-
Foreign currency adjustment	-	-	-	-
As at 31 December 2020	279,655	-	-	279,655

Corresponding ECL for dues from banking institutions

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '002	Total KShs '000
ECL allowance as at 1 January 2019	60	-	-	60
Net movement for the year	27			27
Assets derecognised or repaid (Excluding write offs)	-	-	-	
Transfer stage 1	-	-	-	-
Tran sfer stage 2	-	-	-	-
Transfer stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Changes to contractual cash flows due to modification not resulting to derecognition	-	-	-	-
Recoveries	-	-	-	-
Amount written off	-	-	-	-
Foreign currency adjustment	-	-	-	-
As at 31 December 2019	87	-	-	87

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '002	Total KShs '000
ECL allowance as at 1 January 2020	87	-	-	87
Net movement for the year	53	-	-	53
Assets derecognised or repaid (Excluding write offs)	-	-	-	-
Trans fer stage 1	-	-	--	-
Transfer stage 2	-	-	-	-
Transfer stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Changes to contractual cash flows du e to modification not resulting to derecognition	-	-	-	-
Recoveries	-	-	-	-
Amount written off	-	-	-	-
Foreign currency adjustment	-	-	-	-
As at 31 December 2020	140	-	-	140

10 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.6 CREDIT RISK (CONTINUED)

10.6.3.4 LETTERS OF CREDIT AND GUARANTEES

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

	2020 KShs '000	2019 KShs '000
Financial guarantees	1,001,865	721,845
Letters of credit	100,392	36,467
Other undrawn commitments	400,369	433,107
Total	1,502,626	1,191,419

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

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Outstanding exposure as at 1 January 2019	172,782	592,472	347,483	1,112,737
Reclassification	938,049	(592,468)	(345,581)	-
New exposures	657,375	632,397	-	1,289,772
Exposures derecognised or matured/ lapsed (excluding write off)	(616,717)	(592,471)	(1,902)	(1,211,090)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2019	1,151,489	39,930	-	1,191,419

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

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Outstanding exposure as at 1 January 2020	1,151,489	39,930	-	1,191,419
Reclassification	-	-	-	-
New exposures	1,500,555	2,071	-	1,102,256
Exposures derecognised or matured/ lapsed (excluding write off)	(1,151,489)	(39,930)	-	(1,191,419)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2020	1,500,555	2,071	-	1,502,626

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)
CREDIT RISK (CONTINUED)
LETTERS OF CREDIT AND GUARANTEES (CONTINUED)

The corresponding ECL

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
ECL as at 1 January 2019	1	7,139	14,012	21,152
New exposure s	13,203	244	-	13,447
Exposures derecognised or matured (excluding write offs)	(1)	(7,139)	(14,012)	(21,152)
Transfers to stage 1	-	-	-	--
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2019	13,203	244	-	13,447

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
ECL as at 1 January 2020	13,203	244	-	13,447
New exposures	4,257	6	-	4,263
Exposures derecognised or matured (excluding write offs)	(13,203)	(244)	-	(13,447)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Amounts written o ff	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2020	4,257	6	-	4,263

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

Loans and advances to customers

	2020 KShs'000	2019 KShs'000
Against individually impaired financial assets	1,414,825	2,597,304
Against collectively impaired financial assets	3,803,206	3,430,981
Total	4,418,031	6,028,285

Settlement risk

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

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

10. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.7 CONCENTRATION OF RISK

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

		2020 KShs'000	%	2019 KShs'000	%
(i)	**Advances to customers - gross**				
	Manufacturing	52,930	1	70,341	1
	Wholesale and retail	4,526,732	51	4,058,174	52
	Transport and communication	471,112	5	615,973	8
	Agricultural	51,016	1	46,147	1
	Business services	176,582	2	128,131	2
	Real estate	1,993,341	23	1,700,226	22
	Other	1,574,251	18	1,204,638	15
		8,845,964	100	7,823,630	100
(ii)	**Customer deposits**				
	Central and local Government	601,137	7	611,486	7
	Non-financial public enterprises	55,567	1	37,158	-
	Co-operative societies	140,648	2	131,495	1
	Insurance companies	85,393	1	62,374	1
	Private enterprises and individuals	8,330,690	90	7,919,816	90
	Non-profit institutions	10,497	-	9,531	-
		9,223,932	100	8,771,860	100
(iii)	**Off balance sheet items (Letters of credit and guarantees)**				
	Manufacturing	14,700	1	10,150	1
	Wholesale and retail	800,8 41	73	496,081	65
	Transport and communication	21,760	2	38,018	5
	Business services	255,056	23	211,856	28
	Other	9,900	1	2,207	-
		1,102,257	100	758,312	100

10.8 Liquidity risk

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

Management of liquidity risk

The Assets and Liabilities Committee (ALCO) is responsible for the overall management and monitoring of the Bank's liquidity risk. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

10. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.8 LIQUIDITY RISK (CONTINUED)

10.8.1 MANAGEMENT OF LIQUIDITY RISK (CONTINUED)

Liquidity risk is addressed through the following measures:

- The treasury department monitors liquidity ratios on a daily basis against internal and regulatory requirements
- Day to day funding is managed by monitoring future cash flows to ensure that requirements can be met.

  These include replenishment of funds as they mature or are borrowed by customers.
- The Bank invests in short term liquid instruments which can easily be sold in the market when the need arises.
- The Bank enters into lending contracts subject to availability of funds.
- The Bank has an aggressive strategy aimed at increasing the customer deposit base.
- The Bank borrows from the market through interbank transactions with other Banks and the Central Bank of Kenya for short term liquidity requirements.
- Investments in property and equipment are properly budgeted for and done when the Bank has sufficient cash flows.

The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the board. Daily reports covering the liquidity position of the Bank are regularly submitted to Asset and Liability Committee.

10.8.2 EXPOSURE TO LIQUIDITY RISK

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

	2020	2019
At 31 December	17%	27%
Average for the period	27%	24%
Maximum for the period	33%	27%
Minimum for the period	17%	18%

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

10. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10. 8 LIQUIDITY RISK (CONTINUED)

10.8.2 LIQUIDITY RISK BASED ON UNDISCOUNTED CASH FLOWS

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

AT 31 December 2020	Up to 1 month KShs'000	1 – 3 months KShs'000	4-12 months KShs'000	1 - 5 Years KShs'000	Over 5 Years KShs'000	Total KShs'000
FINANCIAL ASSETS						
Cash and balances with the CBK	166,029	153,285	23,225	-	-	342,539
Balances due from banking institutions	279,515	-	-	-	-	279,515
Other assets	312,359	-	-		-	312,359
Government securities	133,141	-	-	1,991,900	-	2,125,041
Loans and advances to customers	2,826,610	268,976	533,904	5,609,415	-	9,238,905
Total financial assets	3,717,654	422,261	557,129	7,601,315	-	12,298,359
FINANCIAL LIABILITIES						
Balance due to Central Bank of Kenya	640,000	660,000	-	-	-	1,300,000
Deposits and balances due to banking institutions	63,276	-	-	-	-	63,276
Customer deposits	4,799,571	4,167,454	640,854	-	-	9,607,789
Other Liabilities	301,363	10,378	30,050	127,550	48,668	518,008
Total financial liabilities	5,804,210	4,837,832	670,904	127,550	48,668	11,489,164
Net liquidity gap	(2,086,556)	(4,415,571)	(113,775)	7,473,765	(48,668)	809,195
AT 31 December 2019						
Total financial assets	3,011,613	625,625	941,004	6,990,458	-	11,568,700
Total financial liabilities	5,249,275	4,143,671	492,503	126,219	75,484	10,087,152
Net liquidity gap	(2,237,662)	(3,518,046)	448,501	6,864,239	75,484	1,481,548

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

AT 31 December 2020	Up to 1 month	1-3 months	4-12 months	1-5 Years	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Guarantees	125,089	299,518	554,111	23,146	1,001,864
Acceptances and letters of credit	12,535	30,013	55,525	2,319	100,392
Undrawn formal stand-by facilities, credit lines and other commitments to lend	49,989	119,694	221,436	9,250	400,369
Total	187,613	449,225	831,072	34,715	1,502,625
AT 31 December 2019					
Guarantees	90,127	215,803	399,238	16,677	721,845
Acceptances and letters of credit	36,467	-	-	-	36,467
Undrawn formal stand-by facilities, credit lines and other commitments to lend	54,076	129,482	239,543	10,006	433,107
Total	180,670	345,285	638,781	26,683	1,191,419

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

10 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

MARKET RISKS

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

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

10.9.1 Management of market risks: Overall responsibility of managing market risk rests with the Asset and Liability Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day -to-day review of their implementation. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken which is monitored daily.

10.9.2 Exposure to interest rate risk: The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of interest-bearing financial instruments because of a change in market interest rates. The ALCO is the monitoring body for compliance with these limits and is assisted by Treasury Department in its day-to-day monitoring activities. Other assets are settled no more than 12 months after the reporting date. All the balances are interest bearing. The table below summarises the Bank's exposures to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items because the interest rates are fixed.

AS AT 31 December 2020	Up to 1 month KShs'000	1 – 3 months KShs'000	4-12 months KShs'000	1 - 5 Years KShs'000	Non-interest bearing KShs'000	Total KShs'000
FINANCIAL ASSETS						
Cash and balances with the CBK	-	-	-	-	702,185	702,185
Balances due from other banking institutions	279,515	-	-	-	-	279,515
Government securities	-	131,141	-	1,841,242	-	1,972,383
Loans and advances to customers	2,556,357	243,417	483,171	5,182,069	-	8,465,014
Total financial assets	2,835,872	374,558	483,171	7,023,311	702,185	11,419,097
FINANCIAL LIABILITIES						
Balance due to Central Bank of Kenya	640,000	660,000	-	-	-	1,300,000
Deposits and balances due to banking institutions	63,276	-	-	-	-	63,276
Customer deposits	1,320,063	3,934,583	588,529	-	3,380,757	9,223,932
Total financial liabilities	2,023,339	4,594,583	596,529	-	3,380,757	10,587,208
Interest rate sensitivity gap	812,533	(4,220,025)	(105,358)	7,023,311	(2,678,572)	831,889

10. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.9 Market risks (continued)

Management of market risks

Interest rate/equity price

volatility

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

Certain volatilities, generally those relating to longer-term maturities are unobservable and are estimated by the Bank. Sensitivity analysis on interest rates

An increase of 10 percentage point in interest rates for the period would have increased/ (decreased) profit or loss after tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2020.

	Loans and advances		Investments at amortised cost	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Interest income	67,227	31,497	12,470	12,487
Interest expense	(27,818)	(51,353)	(4,460)	(11,654)
Net change in interest	39,409	22,141	8,010	633

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

Recovery rates

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

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

Currency risk

The bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cashflows. 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.

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

10. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

10.9 MARKET RISKS (CONTINUED)

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

AS AT 31 December 2020	USD KShs'000	GBP KShs'000	EURO KShs'000	OTHERS KShs'000	TOTAL KShs'000
FINANCIAL ASSETS					
Cash and balances with Central Bank of Kenya	53,459	2,220	5,040	2,197	62,916
Balances due from Banking inst itutions	245,357	14,749	19,549	-	279,655
Loans and advances to customers	52,080	-	-	-	52,080
Total financial assets	350,896	16,969	24,589	2,197	394,651
FINANCIAL LIABILITIES					
Customer deposits	54,828	8,165	13,909	-	76,902
Total financial liabilities	54,828	8,165	13,909	-	76,902
NET ON BALANCE SHEET POSITION	296,069	8,804	10,680	2,197	317,749
NET OFF BALANCE SHEET POSITION	118,249	20,658	-	-	138,907
AT 31 December 2019					
Total financial assets	259,719	5,136	21,911	991	287,757
Total financial liabilities	54,828	7,969	5,474	-	68,271
NET ON BALANCE SHEET POSITION	204,891	(2,833)	16,437	991	219,486
NET OFF BALANCE SHEET POSITION	39,033	6,031	-	857	45,921

10. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.9 MARKET RISKS (CONTINUED)

Market risks - sensitivity analysis

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

For simulation modelling, the Bank uses a combination of scenarios relevant to local businesses and local markets.

These scenarios are used to illustrate the effect on the Bank's earnings and capital.

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

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

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

The analysis below sets out the impact on future net interest income of an incremental 10% parallel fall or rise in all yield curves as at 31 December 2020.

Assuming no management actions, a series of such appreciation would increase net interest income for 2020 by KShs 64,344,900(2019 - KShs 53,460,000), while a series of such falls would decrease net interest income for 2020 by KShs.64,344,900 (2019 - KShs 53,460,000).

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.5 % (2019: 0.5%) and 0.5% (2019: 0.5%) respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by0.5% (2019: 0.5%) and 0.5% (2019: 0.5%) respectively.

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

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

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

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies as at 31 December 2020.

10. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.9 MARKET RISKS (CONTINUED)

Market risks - sensitivity analysis (continued)

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

	Amount 31 December 2020 KShs'000	Scenario 1 10% appreciation KShs'000	Scenario 2 10% Depreciation KShs'000
Loss before taxation	(258,878)	(258,016)	(265,992)
Adjusted Core Capital	827,888	833,185	823,345
Adjusted Total Capital	1,075,577	1,075,577	1,075,577
Risk Weighted Assets (RWA)	11,739,491	11,739,491	11,739,491
Adjusted Core Capital to RWA	7.0%	7.0%	7.0%
Adjusted total Capital to RWA	9.2%	9.2%	9.2%

	Amount 31 December 2019 KShs'000	Scenario 1 10% appreciation KShs'000	Scenario 2 10% Depreciation KShs'000
Loss before taxation	(518,001)	(515,830)	(520,172)
Adjusted Core Capital	1,153,160	1,155,331	1,150,989
Adjusted Total Capital	1,370,206	1,372,377	1,368,035
Risk Weighted Asset s (RWA)	10,125,911	10,125,911	10,125,911
Adjusted Core Capital to RWA	11.4%	11.4%	11.4%
Adjusted total Capital to RWA	13.5%	13.5%	13.5%

10.10 OTHER RISKS

NON-FINANCIAL RISK MANAGEMENT DISCLOSURES:

10.10.1 STRATEGIC RISK

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

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

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

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

10 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.10 OTHER RISKS (CONTINUED)

NON-FINANCIAL RISK MANAGEMENT DISCLOSURES:(CONTINUED)

10.10.1 STRATEGIC RISK (CONTINUED)

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

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

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

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

10.10.2 NON-FINANCIAL RISK MANAGEMENT DISCLOSURES:

10.10.3 OPERATIONAL RISK

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

The major operational risks faced by the Bank include:

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

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

10 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.10.2 NON-FINANCIAL RISK MANAGEMENT DISCLOSURES (CONTINUED)

10.10.3 OPERATIONAL RISK (CONTINUED)

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

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

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

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

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

  i) Framework for the Bank, businesses, and support functions to identify their major operational risks and mitigation plans;

  ii) Key control standards;

  iii) Indicators to identify Operational Risk; and

  iv) Incident and issues tracking mechanisms to identify causal factors and operational losses:

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

10 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

10.10.2 NON-FINANCIAL RISK MANAGEMENT DISCLOSURES (CONTINUEDo

10.10.3 OPERATIONAL RISK (CONTINUED)

10.10.4 COMPLIANCE (POLICY/LEGAL/REGULATORY) RISK:

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

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

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

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

10.10.5 REPUTATIONAL RISK

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

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

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

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

10. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

10.11 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

Financial assets at FVTOCI:		**Level 1**	**Level2**	**Level 3**	**Total**
31 December 2020	**Note**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Quoted investments		7,920	-	-	7,920
31 December 2019					
Quoted investments		7,378	-	-	7,378

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

Financial assets	**Fair value as at**		**Fair value and hierarchy**	**Valuation technique(s) key inputs**	**Significant unobservable inputs**	**Relationship of unobservable inputs to fair value**
	31/12/20 KShs '000	31/12/19 KShs'000		Quoted bid prices in an active market		

There were no transfers between levels 1, 2 and 3 in the period (2019: none).

10.12 Price risk sensitivity

The Bank is exposed to price risk on quoted investment securities

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

	Impact on equity	
	2020	**2019**
	KShs '000	**KShs '000**
Effect of increase on Equity	34	32

11 CAPITAL MANAGEMENT (GROUP AND BANK)

Regulatory capital

The Banks objectives when managing capital are:

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

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

The Central Bank of Kenya requires each Bank to:

a) Hold the minimum level of regulatory capital of KShs 1 billion.

b)Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 10.5%;

c) Maintain a core capital of not less than 8% of total deposit assets; and

d) Maintain total capital of not less than 14.5% of risk weighted assets plus risk weighted off balance sheet items.

As further disclosed in note 9, the Bank had not complied with capital to risk weighted assets of not less than 14.5% and the Tier 1 capital to risk weighted assets of not less than 10.5% in 2020. In 2019 the Bank had not complied with capital to risk weighted assets of not less than 14.5%.

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

- Tier 1 capital, which includes ordinary share capital, non-cumulative irredeemable non-convertible preference shares, disclosed reserves such as share premiums, retained earnings, and 50% un-audited after tax profit less investment in subsidiaries conducting banking business, investments in equity of other institutions, intangible assets (excluding computer software) and goodwill.
- Tier 2 capital, which includes 25% revaluation surplus which have received prior CBK approval, subordinated debt, hybrid capital instruments or any other capital instruments approved by CBK.

11. CAPITAL MANAGEMENT (Continued)

The Bank's regulatory capital position

	2020 KShs'000	2019 KShs'000
Tier 1 capital		
Ordinary share capital	2,998,400	2,998,400
Non-cumulative irredeemable shares	721,130	721,130
Share capital	3,719,530	3,719,530
Accumulated deficit	(2,894,138)	(2,567,139)
Total	825,392	1,152,391
Tier 2 capital		
Revaluation reserves (25%)	101,500	90,472
General loan loss provision -statutory reserve (Maximum of 1.25% of RWA)	146,744	126,574
Total	248,244	217,046
Total regulatory capital	1,073,636	1,369,437
Risk-weighted assets	11,739,491	10,125,914
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 14.5%)	9.3%	13.5%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 10.5%)	7.0%	11.4%

12. INTEREST INCOME (Group and Bank)

	2020 KShs'000	2019 KShs'000
Interest on loans and advances	896,360	1,049,913
Interest on Bank placements	2,199	-
Interest on investments at amortised cost	166,270	166,491
	1,064,829	1,216,404

13. INTEREST EXPENSE (Group and Bank)

	2020 KShs'000	2019 KShs'000
Interest on customer deposits	370,897	395,024
Interest on inter -bank borrowings	-	-
Interest on Central Bank of Kenya Repos	35,680	88,173
Interest on borrowed funds	-	177,961
Interest on leases	14,803	13,797
	421,380	674,955

14. FEE AND COMMISSION INCOME

	2020 Bank KShs'000	2020 Group KShs'000	2019 Bank KShs'000	2019 Group KShs'000
Ledger related fees and commissions	31,425	31,425	39,387	39,387
Credit related fees and commissions	161,952	161,952	208,918	208,918
Transaction related fees	79,368	98,825	95,714	107,866
	272,745	292,202	344,019	356,171

15. FOREIGN EXCHANGE TRADING INCOME (Group and Bank)

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

	2020 KShs'000	2019 KShs'000
Gains on foreign exchange trading	19,943	23,889
Losses on foreign exchange trading	-	(2,174)
	19,943	21,715

16. OTHER OPERATING INCOME (Group and Bank)

	2020 KShs'000	2019 KShs'000
Rental income	60,871	71,028
Remedial recoveries	6,147	10,823
Recoveries on loans and advances	271,909	225,469
Gain on disposal of property and equipment	365	187
Sundry income*	3,647	6,012
	342,939	313,519

* relate to income on sale of tenders.

17. OPERATING EXPENSES

	2020 Bank KShs'000	2020 Group KShs'000	2019 Bank KShs'000	2019 Group KShs'000
Staff costs (note 18)	690,531	692,952	687,687	696,976
Directors' emoluments - Fees	13,610	13,610	12,476	12,476
- Other	21,580	21,580	21,580	21,580
Depreciation - Current year (note 28)	87,656	89,149	95,091	95,870
Amortisation of intangible assets (note 29)	79,432	80,431	108,129	108,427
Amortisation of operating lease (note 30)	170	170	170	170
Contribution to Kenya Deposit Insurance Corporation	13,357	13,357	13,266	13,266
Auditors' remuneration -Current year	4,547	4,580	4,330	4,580
Other operating expenses	400,970	412,323	378,849	381,478
	1,314,418	1,330,984	1,321,578	1,334,823

18. STAFF COSTS

	2020 Bank KShs'000	2020 Group KShs'000	2019 Bank KShs'000	2019 Group KShs'000
Salaries and wages	575,925	581,126	571,180	578,948
Training, recruitment and staff welfare costs	23,313	21,261	21,188	21,469
Pension contributions	37,839	38,154	37,870	38,309
Medical expenses	51,367	49,861	46,229	46,880
Leave pay provision	(7,521)	(7,521)	(162)	(162)
Staff insurance	2,518	2,943	4,383	4,517
Gratuity provision (note 32(a))	6,460	6,477	6,346	6,346
NSSF contributions	630	651	653	669
	690,531	692,952	687,687	696,976

19. INCOME TAX (Group and Bank)

a) Taxation charge

	2020 KShs	2019 KShs
Current tax based on the taxable profit for the year at 25% (2019:30%)	9,100	13,066
Prior year over provision- current taxation	6,204	225
Derecognition of prior year deferred tax	-	-
	15,304	13,291

Reconciliation of expected tax based on accounting loss to tax charge

	2020 KShs	2019 KShs
b) Loss before taxation	(258,878)	(518,001)
Tax calculated at a tax rate of 25% (2019: 30%)	(64,720)	(155,400)
Tax effect of expenses not deductible for taxpurposes*	5,748	7,358
Non-taxable income	-	(1,800)
Prior year over provision- current taxation	6,204	225
Current year's deferred tax not recognised	68,072	162,908
Prior year deferred tax derecognition	-	-
	15,304	13,291

* Tax effect of expenses not deductible for tax purposes relates to expenses incurred not for business or generation of revenue e.g. donations. The bank has not recognised deferred tax assets of KShs 68 million (2019: KShs 162 million) due to uncertainty of future earnings and profits against which the deferred tax assets can be offset. Tax losses can be carried forward for a period of nine years after they are first incurred.

19. INCOME TAX (CONTINUED)

	2020 KShs'000	2019 KShs'000
c) Taxation recoverable		
At 1 January	6,204	2,809
Charge for the year	(9,100)	(13,066)
Prior year (over)/under provision	(6,204)	(225)
Tax paid during the year	15,583	16,686
At 31 December	6,483	6,204

20. LOSS PER SHARE (Bank)

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

	2020 KShs'000	2020 KShs'000	2019 KShs'000	2019 KShs'000
Group	Grou p	Bank	Group	Bank
Loss for the year	(274,182)	(277,073)	(531,292)	(530,199)
Number of ordinary shares (number in thousands)	149,930	149,920	149,930	149,920
Loss per share				
Basic and diluted (KShs)	(1.83)	(1.85)	(3.54)	(3.54)

There were no potentially dilutive shares outstanding as at 31 Decem ber 2020 and 31 December 2019, respectively. Diluted earnings per share are therefore the same as basic earnings per share.

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

	2020 KShs'000	2019 KShs'000
Cash in hand	300,796	296,290
Balances with Central Bank of Kenya:		
- Cash ratio reserve	359,646	599,439
- Other balances (available for use by the Bank)	41,743	10,691
	702,185	906,420

Cash in hand and balances with Central Bank of Kenya are non-interest bearing. The cash ratio reserve is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December 2020 the cash ratio reserve requirement was 4.25% (2019 – 5.25%) of all customer deposits held by the Bank. These funds are not available to finance the Bank's day to day operations.

22. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2020 Bank KShs'000	2020 Group KShs'000	2019 Bank KShs'000	2019 Group KShs'000
a) Balances due from banking institutions maturing within 90 days:				
Balances with correspondent banks	55,242	55,242	94,330	94,330
Balances with local banks	224,413	224,413	79,666	84,789
	279,655	279,655	173,996	179,119
As at 1 January	87	87	60	60
Impact of adopting IFRS 9	-	-	-	-
Increase in allowance for impairment	53	53	27	27
Allowance for impairment as at 31 December	140	140	87	87
Net carrying value	279,515	279,515	173,909	179,032
b) Deposits from local banks	63,276	63,276	23,814	23,814
c) Borrowing from Centr al Bank of Kenya	1,300,000	1,300,000	720,000	720,000

Deposits with/from local banks as at 31 December 2020 represent overnight lending.

The borrowings from Central Bank of Kenya as at 31 December 2020 was a REPO:

-Tenure: The period of the borrowings was 3 months from 9 October 2020 to 8 January 2021-640,000,000, 24 November 2020 to 25 February 2021-360,000,000, 9 December 2020 to 10 March 2021-300,000,000. (2019: The period of the borrowings was 1 month from 19 December 2019 to 16 January 2020-320,000,000, 24 December 2019 to 21 January 2020-400,000,000.)

- Interest rate: the borrowing attracted an interest rate of 7% (2019: interest rate of 9%.)

- Security: pledge of the Bank is only a portion of the Treasury Bonds whose fair value was KShs 1,625,000,000. (2019:

Security: pledge of the Bank is only a portion of the Treasury Bonds whose fair value was KShs 900,000,000).

23. FINANCIAL ASSETS AT AMORTISED COST (Group and Bank)

	2020 KShs'000	2019 KShs'000
GOVERNMENT SECURITIES		
Kenya Government Treasury bonds – at amortised cost	1,972,383	2,082,370
	1,972,383	2,082,370
The maturity profile of government securities is as follows:		
Less than 1 year	397,788	525,888
3 years to 5 years	799,373	799,372
Over 5 years	775,222	757,110
	1,972,383	2,082,370

The weighted average effective interest rate on treasury bonds was 8.7 % (2019 –8.3%). As at 31 December 2020 treasury bonds with a fair value of KShs 1,625,000,000 (2019–900,000,000) had been pledged to secure borrowings from Central Bank of Kenya.

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

	2020 KShs'000	2019 KShs'000
24. a) Commercial loans	4,534,217	3,868,401
Overdrafts	840,127	994,891
Mortgages	2,064,522	1,789,699
Asset finance loans	773,154	804,989
Staff loans	633,944	365,650
Gross loans and advances	8,845,964	7,823,630
Less:		
Impairmen t losses on loans and receivables (note 25)	(380,950)	(454,597)
Net loans and receivables	8,465,014	7,369,033

The weighted average effective interest rate on loans and receivables as at 31 December 2020 was 13% (2019 – 13%).
Included in gross loans and receivables of KShs 8,845,964,000 (2019 – KShs 7,823,630,000) are non-performing loans amounting to KShs 1,604,861,000 (2019 – KShs 1,892,391,000). These are included in the statement of financial position net of specific provisions of KShs 282,222,504 (2019 – KShs 345,916,938).

	2020 KShs'000	2019 KShs'000
b) Analysis of gross loans and receivables by maturity		
Maturing:		
Within 1 year	2,556,356	1,990,824
Between 1 and 3 years	1,745,008	2,435,699
After 3 years	4,544,600	3,397,107
Loans and receivables to customers	8,845,964	7,823,630

The concentration of advances to customers is covered under note 10.7

25. IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES (Group and Bank)

	2020 KShs'000	2019 KShs'000
At 1 January	454,597	529,002
IFRS 9 Adjustment		-
Increase in impairment allowances	226,374	416,005
Write offs	(28,112)	(264,941)
Reversals in impairment allowances	(271,909)	(225,469)
At 31 December	380,950	454,597
Collectively assessed impairment	98,730	86,660
Individually assessed impairment	282,220	367,937
	380,950	454,597

26. (a) OTHER ASSETS

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

	2020 KShs'000 Group	2020 KShs'000 Bank	2019 KShs'000 Group	2019 KShs'000 Bank	2019 KShs'000 Group
Un-cleared items in the course of collection	22,824	22,824	18,051	18,051	18,051
Prepayments	13,219	13,199	48,762	48,762	48,762
Deposits for services	13,219	13,219	13,219	13,219	13,219
Others*	256,614	256,614	191,437	191,437	191,437
	305,876	305,856	271,469	271,469	271,469

* Included in others are Mpesa and Kenswitch ba lances.

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

	2020 KShs'000	2019 KShs'000
At beginning of the year	7,378	6,727
Gain in market value of investment	542	651
At end of the year	7,920	7,378

The investment consists of 21,699 shares of Kakuzi Limited which are in the name of Jimba Credit Corporation Limited but b eneficially vested in the Bank.

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

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

28 (a). GROUP PROPERTY AND EQUIPMENT AND RIGHT OF USE OF ASSETS

	Land and buildings KShs'000	Right of use of assets (rental space) KShs'000	Leasehold improvements KShs'000	Motor vehicles KShs'000	Fixtures, fittings, equipment & ATMs KShs'000	Computers KShs'000	Work in progress	Total KShs'000
COST/VALUATION								
At 1 January 2019	719,000	-	422,839	20,476	325,569	148,004	2,171	1,638,059
Effects of adoption of IFRS 16 as at 1 January 2019	-	167,836	-	-	-	-	-	167,836
Additions	-	-	5,233	-	17,395	1,061	-	23,689
Transfer from WIP	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	(1,164)	(72)	-	(1,236)
At 31 December 2019	719,000	167,836	428,072	20,476	341,800	148,993	2,171	1,828,348
At 1 January 2020	719,000	167,836	428,072	20,476	341,800	148,993	2,171	1,828,348
Additions	-	81,368	152	-	13,035	12,075	-	106,630
Transfer from WIP	-	-	-	-	-	2,171	(2,171)	-
Disposal	-	(20,969)	-	-	(10,728)	(12,038)	-	(43,735)
Surplus on revaluation	113,850	-	-	-	-	-	-	113,850
Elimination on revaluation	(100,350)	-	-	-	-	-	-	(100,350)
At 31 December 2020	732,500	228,235	428,224	20,476	344,107	151,201	-	1,904,743
Comprising								
At cost	-	228,235	428,224	20,476	344,107	151,201	-	1,172,243
At valuation 2020	732,500	-	-	-	-	-	-	732,500

28(a). GROUP PROPERTY AND EQUIPMENT AND RIGHT OF USE OF ASSETS (Continued)

	Land and buildings	Right of use of assets (rental space)	Leasehold improvements	Motor vehicles	Fixtures, fittings, equipment& ATMs	Computers	Work in progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000		KShs'000
ACCUMULATED DEPRECIATION								
At 1 January 2019	66,900	-	405,109	17,460	300,252	128,223	-	917,944
Charge for the year	16,725	47,408	9,689	2,472	10,879	8,697	-	95,870
Elimination on disposal	-	-	-	-	(1,139)	(61)	-	(1,200)
At 31 December 2019	83,625	47,408	414,798	19,932	309,992	136,859	-	1,012,614
At 1 January 2020	83,625	47,408	414,798	19,932	309,992	136,859	-	1,012,614
Charge for the year	16,725	45,000	10,069	540	9,471	7,344	-	89,149
Elimination on disposal	-	(3,679)	-	-	(10,728)	(12,038)	-	(26,445)
Elimination on revaluation	(100,350)	-	-	-	-	-	-	(100,350)
At 31 December 2020	-	88,729	424,867	20,472	308,735	132,165	-	974,968
NET BOOK VALUE								
At 31 December 2020	732,500	139,506	3,357	4	35,372	19,036	-	929,775
At 31 Decemb er 2019	635,375	120,428	13,274	544	31,808	12,134	2,171	815,734

CONSOLIDATED BANK OF KENYA LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

28(a). BANK PROPERTY AND EQUIPMENT AND RIGHT OF USE OF ASSETS

	Land and buildings	Right of use of assets (rental space)	Leasehold improvements	Motor vehicles	Fixtures, fittings, equipment & ATMs	Computers	Work in progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000		KShs'000
COST/VALUATION								
At 1 January 2019	719,000	-	422,839	20,476	325,569	147,915	2,171	1,637,970
Effects of adoption of IFRS 16 as at 1 January 2019	-	167,836	-	-	-	-	-	167,836
Additions	-	-	-	-	16,639	1,061	-	17,700
Transfer from WIP	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	(1,164)	(72)	-	(1,236)
At 31 December 2019	719,000	167,836	422,839	20,476	341,044	148,904	2,171	1,822,270
At 1 January 2020	719,000	167,836	422,839	20,476	341,044	148,904	2,171	1,822,270
Additions	-	81,368	-	-	13,035	12,075	-	106,478
Transfer from WIP	-	-	-	-	-	2,171	(2,171)	-
Disposal	-	(20,969)	-	-	(10,728)	(12,038)	-	(43,735)
Surplus on revaluation	113,850	-	-	-	-	-	-	113,850
Elimination on revaluation	(100,350)	-	-	-	-	-	-	(100,350)
At 31 December 2020	732,500	228,235	422,839	20,476	343,351	151,112	-	1,898,513
Comprising								
At cost	-	228,235	422,839	20,476	343,351	151,112	-	1,166,013
At valuation 2020	732,500	-	-	-	-	-	-	732,500

28(a). BANK PROPERTY AND EQUIPMENT AND RIGHT OF USE OF ASSETS (Continued)

	Land and buildings	Right of use of assets (rental space)	Leasehold improvements	Motor vehicles	fittings, equipment& ATMs	Computers	Work in progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000		KShs'000
ACCUM ULATED DEPRECIATION								
At 1 January 2019	66,900	-	405,109	17,460	300,252	128,221	-	917,942
Charge for the year	16,725	47,408	9,010	2,472	10,809	8,667	-	95,091
Elimination on disposal	-	-	-	-	(1,139)	(61)	-	(1,200)
At 31 December 2019	83,625	47,408	414,119	19,932	309,922	136,827	-	1,011,833
At 1 January 2020	83,625	47,408	414,119	19,932	309,922	136,827	-	1,011,833
Charge for the year	16,725	45,000	8,720	540	9,356	7,315	-	87,656
Elimination on disposal	-	(3,679)	-	-	(10,728)	(12,038)	-	(26,445)
Elimination on revaluation	(100,350)	-	-	-	-	-	-	(100,350)
At 31 December 2020	-	88,729	422,839	20,472	308,550	132,104	-	972,694
NET BOOK VALUE								
At 31 December 2020	732,500	139,506	-	4	34,801	19,008	-	925,819
At 31 December 2019	635,375	120,428	8,720	544	31,122	12,077	2,171	810,437

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

Motor vehicles, fixtures fittings and equipment with a cost of KShs.810,802,870 (2019- KShs 810,312,814) were fully depreciated as at 31 December 2020. The notional depreciation charge on these assets would have been KShs.128,332,274 (2019- KShs 149,990,992).

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

28 (b). GROUP AND BANK PROPERTY AND EQUIPMENT AND RIGHT OF USE OF ASSETS (Continued)

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

	2020 KShs'000	2019 KShs'000
As at 1 January	167,836	167,836
Additions	81,368	47,408
Accretion of interest	14,803	13,797
Derecognition	(19,218)	-
Payments	(98,006)	(61,205)
Rent waiver	(888)	-
As at 31 December	145,895	167,836

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

	2020 KShs'000	2019 KShs'000
At 1 January	117,555	122,076
Depreciation charge	(4,521)	(4,521)
At 31 December	113,034	117,555

29. BANK INTANGIBLE ASSETS

	Computer Software KShs'000	Work in Progress KShs'000	Total KShs'000
COST/VALUATION			
At 1 January 2019	528,327	12,272	540,599
Additions	111,461	28,296	139,757
Transfer from WIP	5,226	(5,226)	-
Disposals	(130)	-	(130)
At 31 December 2 019	644,884	35,342	680,226
At 1 January 2020	644,884	35,342	680,226
Additions	48,281	23,023	71,304
Transfer from WIP	35,342	(35,342)	-
Disposals	-	-	-
At 31 December 2020	728,507	23,023	751,530
ACCUMULATED AMORTISATION			
At 1 January 2019	354,387	-	354,387
Charge for the year	108,427	-	108,427
Eliminated on disposal	(130)	-	(130)
At 31 December 2019	462,684	-	462,684
At 1 January 2020	462,684	-	462,684
Charge for the year	80,431	-	80,431
At 31 December 2020	543,115	-	543,115
NET BOOK VALUE			
At 31 December 2020	185,392	23,023	208,415
At 31 December 2019	182,200	35,342	217,542

Work in progress relates to the Transactional monitoring system, Agency Banking project and virtual wallet banking system projects which were at various stages of completion.

29. BANK INTANGIBLE ASSETS

	Computer Software KShs'000	Work in Progress KShs'000	Total KShs'000
COST/VALUATION			
At 1 January 2019	528,327	10,772	539,099
Additions	109,963	28,296	138,259
Transfer from WIP	3,726	(3,726)	-
Disposals	(130)	-	(130)
At 31 December 2019	641,886	35,342	677,228
At 1 January 2020	641,886	35,342	677,228
Additions	48,281	23,023	71,304
Transfer from WIP	35,342	(35,342)	-
At 31 December 2020	725,509	23,023	748,532
ACCUMULATED AMORTISATION			
At 1 January 2019	354,387	-	354,387
Charge for the year	108,129	-	108,129
Eliminated on disposal	(130)	-	(130)
31 December 2019	462,386	-	462,386
At 1 January 2020	462,386	-	462,386
Charge for the year	79,432	-	79,432
At 31 December 2020	541,818	-	541,818
NET BOOK VALUE			
At 31 December 2020	183,691	23,023	206,714
At 31 December 2019	179,500	35,342	214,842

Work in progress relates to the Transactional monitoring system, Agency Banking project and virtual wallet banking system projects which were at various stages of completion.

30. LEASEHOLD LAND

	2020 KShs'000	2019 KShs'000
COST		
At 1 January and 31 December	45,298	45,298
ACCUMULATED AMORTISATION		
At 1 January	38,829	38,659
Charge for the year	170	170
At 31 December	38,999	38,829
NET BOOK VALUE		
At 31 December	6,299	6,469

31. CUSTOMER DEPOSITS (Group and Bank)

	2020 KShs'000	2019 KShs'000
Current and demand accounts	3,370,873	3,207,533
Savings accounts	1,296,475	1,149,370
Fixed deposit accounts	4,554,139	4,412,619
Margins	2,445	2,338
	9,223,932	8,771,860
Maturity analysis of customer deposits:		
Repayable:		
On demand	4,673,102	4,359,240
Within one year	4,550,830	4,412,620
	9,223,932	8,771,860

The weighte d average effective interest rate on interest bearing customer deposits at 31 December 2020 was 3.9% (2019 – 4.4%). Concentration of customers' deposits is covered under note 10.7.

32. OTHER LIABILITIES

	2020 KShs'000 Group	2020 KShs'000 Bank	2019 KShs'000 Group	2019 KShs'000 Bank
Accrued expenses	28,179	28,179	19,918	19,918
Gratuity (note 32(a)	14,699	14,699	9,600	9,600
Leave pay provision (note 32(b))	-	-	7,521	7,521
Tenants deposits	15,519	15,519	16,755	16,755
Cheques for collection	-	-	1,024	1,024
Sundry payables*	257,441	257,143	128,609	127,501
Lease liability (note 28 (c))	145,895	145,895	1267,836	167,836
	461,733	461,435	351,263	350,155

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

32. OTHER LIABILITIES (continued)

	2020 KShs'000	2020 KShs'000	2019 KShs'000	2019 KShs'000
a) Gratuity	Bank	Group	Bank	Group
Balance as at 1 January	9,600	9,600	4,168	4,168
Paid	(1,378)	(1,378)	(914)	(914)
Charge for the year	6,477	6,477	6,346	6,346
Bala nce as at 31 December	14,699	14,699	9,600	9,600
b) Leave pay provision				
Balance as at 1 January	7,521	7,521	7,683	7,683
Credit for the year	(7,521)	(7,521)	(162)	(162)
Balance as at 31 December	-	-	7,521	7,521

33. BORROWINGS (Group and Bank)

	2020 KShs'000	2019 KShs'000
As at 1 January	-	1,732,320
Interest expense	-	177,961
Repayments during the year	-	(1,910,281)
At the end of the year	-	-
Analysis by currency:		
Borrowings in Euros	-	-
Borrowings in Kenya shillings (KShs)	-	-
	-	-
Analysis by lender:		
European Investment Bank (EIB)	-	-
Corporate bond – medium term notes	-	-

33. BORROWINGS (continued) Facility terms:

a) EIB Loan facility: The facility from European investment Bank was a credit line of Eur 6,500,000 received by the Bank as part of its participation in the global loan facility extended by EIB to a group of financial institutions in Kenya under the Cotonou Agreement. The facility terms are as follows:

- Tenure: The period of the financing which shall be between 4 to 10 years save in respect of sub-loans for small projects where the sub loan is less than the equivalent of EUR 50,000 and finance leases, which shall have a minimum tenor of 3 years.

- Interest rate: For a tranche denominated in EUR or USD as margin of 2.88% per annum and for tranches denominated in Kenya Shillings will attract additional currency risk premium depending on the tenor of the loan

- Security: a negative pledge on present and future business undertakings together with all the assets or revenues of the Bank.

- Retirement: The bank prepaid fully the EIB loan on 22 July 2019

b) Medium term notes: this refers to a series of senior and subordinated notes issued by the Bank and traded on the Nairobi Securities Exchange. The issued and currently traded notes have a face value KShs 1,678,200,000.

- Tenor: the notes mature on 22 July 2019

- Interest rate: the notes attract a fixed interest rate of 13.5 % for the senior notes and 13.25% for the subordinated notes.

- Retirement: The notes matured on 22 July 2019 and the Bank sort an extension of the maturity for a further 3 months to 22 October 2019 and the same was approved by the noteholders. The note was fully settled on 22 October 2019.

34. SHARE CAPITAL (Bank)

	2020 KShs'000	2019 KShs'000
a) Authorised:		
160,000,000 ordinary shares (2019: 80,000,000 ordinary shares) of KShs 20 each	3,200,000	1,600,000
80,000,000, 4% non-cumulative irredeemable non-convertible preference shares of KShs 20 each	1,600,000	1,600,000
	4,800,000	3,200,000
b)Issued and fully paid:		
149,920,000 ordinary shares of KShs 20 each	2,998,400	2,998,400
36,056,500, 4% non-cumulative irredeemable Non-convertible preference Shares of KShs 20 each	721,130	721,130
	3,719,530	3,719,530

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

35. REVALUATION SURPLUS (Group and Bank)

		2020 KShs'000	2019 KShs'000
At 1 January		361,888	370,509
Gain on revaluation of properties		113,850	-
Transfer of excess depreciation		(14,380)	(12,316)
Deferred tax on transfer of excess depreciation	- Buildings	4,314	3,695
At 31 December		465,672	361,888

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

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

36. ACCUMULATED DEFICIT

	2020 KShs'000 Group	2020 KShs'000 Bank	2019 KShs'000 Group	2019 KShs'000 Bank
At 1 January	(2,567,139)	(2,562,072)	(2,061,222)	(2,061,222)
Elimination of subsidiary losses from the bank	-	-	-	3,974
Loss for the year	(274,182)	(277,073)	(531,292)	(530,199)
Transfer of excess depreciation	14,380	14,380	12,316	12,316
Deferred tax on transfer of excess depreciation	(4,314)	(4,314)	(3,695)	(3,695)
Transfer to statutory reserve	(62,883)	(62,883)	16,754	16,754
At 31 December	(2,894,138)	(2,891,962)	(2,567,139)	(2,562,072)

	2020 KShs'000	2019 KShs'000
37. STATUTORY RESERVE (Group and Bank)		
At 1 January	473,925	490,679
Transfer from/(to) accumulated deficit	62,883	(16,754)
At 31 December	536,808	473,925
38. FAIR VALUE RESERVE (Group and Bank)		
At 1 January	6,510	5,859
Gain in market value of quoted equity shares	542	651
At 31 December	7,052	6,510

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

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

	2020 KShs'000	2019 KShs'000
(a) Reconciliation of loss before taxation to cash used in operations		
Loss before taxation	(258,878)	(518,001)
Adjustments for:		
Depreciation of property and equipment (note 28)	89,149	95,870
Amortisation of intangible assets (note 29)	80,431	108,427
Amortisati on of leasehold land (note 30)	170	170
Interest expense on leases	14,803	13,797
Prepaid lease	-	(3,872)
Gratuity provision	6,477	-
Gain on disposal of property and equipment	(365)	(187)
Gratuity provision	6,477	-
Leave provision	(7,521)	-
Loss on derecognition of right of use asset	17,290	-
Gain on derecognition of lease liability	(19,218)	-
Impairment (credit)/charge on loans and advances	(45,535)	190,653
Loss before working capital changes	(123,197)	(113,143)
Increase in cash ratio balance	239,793	(63,842)
Increase in other assets	(34,407)	35,481
(increase)/decrease in gross loans and receivables	(1,050,446)	870,170
Increase in customer deposits	452, 072	183,316
Increase in other liabilities	212,891	65,901
Decrease in tre asury bonds	109,987	107,724
Cash (used in)/from operations	(193,307)	1,085,607
(b) Analysis of the balances of cash and cash equivalents as shown in the statement of financial position and notes		
Cash on hand (note 21)	300,796	296,290
Balances with Central Bank of Kenya –other (note 21)	41,743	10,692
Balances with other banking institutions (note 22)	279,515	179,032
Balance to Central Bank (note 22 (c))	(1,300,000)	(720,000)
Deposits and balances to other banking institutions (note 22 (b))	(63,276)	(23,814)
	(741,222)	(257,800)

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

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

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

	2020	2019
	KShs'000	KShs'000
Loss before taxation	(261,769)	(516,908)
Adjustments for:		
Depreciation of property and equipment (note 28)	87, 656	95,091
Amortisation of intangible assets (note 29)	79,432	108,129
Amortisation of leasehold land (note 30)	170	170
Interest expense on leases	14,803	13,797
Leasehold land	-	(3,872)
Loss on derecognition of right of use asset	17,290	-
Gain on derecognition of lease liability	(19,218)	
Elimination of accumulated losses for subsidiary	-	3,974
Elimination of prior year financing activity (acquisition of PPE)	-	1,588
Gain on disposal of property and equipment	(365)	(190)
Gratuity provision	6,477	-
Leave provision	(7,521)	-
Impairment (credit)/charge on loans and advances	(45,535)	190,653
Loss before working capital changes	(128,580)	(107,568)
Increase in cash ratio balance	239, 793	(63,842)
Increase in other assets	(34,387)	18,402
(Increase)/decrease in gross loans and receivables	(1,050,446)	870,170
Increase in customer deposits	452,072	183,316
Increase in other liabilities	231,701	64,793
Decrease in treasury bonds	109,987	107,724
Decrease in due from subsidiary	9,524	-
Cash (used in)/from operations	(188,336)	1,072,995

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

	2020	2019
Cash on hand (note 21)	300,796	296,290
Balances with Central Bank of Kenya –other (note 21)	41,743	10,691
Balances with other banking institutions (note 22(a)	279,019	173,909
Balance due to Central Bank (note 22 (c))	(1,300,000)	(720,000)
Deposits and balances to other banking institutions (note 22(b))	(63,276)	(23,814)
	(741,718)	(262,924)

40. INVESTMENTS IN SUBSIDIARIES

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

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

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

Further to the above, the bank incorporated, Consolidated Bank Insurance Agency Limited, which commenced operations in January 2019.

All the above subsidiaries are wholly owned by the Bank. The subsidiaries except Consolidated Bank Insurance Agency Limited are dormant and had a nil carrying value as at 31 December 2020 (2019: Nil).

41. OTHER SUPPLEMENTARY INFORMATION (Bank)

The bank's business comprises the following reportable units:

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

Others comprise rental income and other incidental income from the rental space in the Bank's Head Office building at Consolidated Bank House.
The table below summarizes the breakdown of other supplementary information ;

PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020

	Corporate banking KShs'000	Retail banking KShs'000	Treasury KShs'000	Other KShs'000	Total KShs'000
Net interest income	183,443	327,216	132,790	-	643,449
Net fee and commissi on	219,971	334,843	19,943	19,456	594,213
Other income	-	-	-	60,871	60,871
Operating income	403,414	662,059	152,733	80,327	1,298,533
Operating expenses	(569,645)	(924,213)	(17,157)	(46,396)	(1,557,411)
Profit/(loss) before tax	(166,231)	(262,154)	135,576	33,931	(258,878)

(Continued) Profit or loss for the year ended 31 December 2019

	Corporate banking KShs'000	Retail banking KShs'000	Treasury KShs'000	Other KShs'000	Total KShs'000
Net interest income	184,499	456,593	(99,64 3)	-	541,449
Net fee and commission	194,691	391,825	21,715	12,146	620,377
Other income	-	-	-	71,028	71,028
Operating income	379,190	848,418	(77,928)	83,174	1,232,854
Operating expenses	(580,197)	(1,107,120)	(19,624)	(43,914)	(1,750,855)
Profit/(loss) before tax	(201,007)	(258,702)	(97,552)	39,260	(518,001)
Statement of financial position as at 31 December 2020					
Assets					
Short term funds	-	579,815	2,374,268	-	2,954,083
Loans	3,007,337	5,457,677	-	-	8,465,014
Other assets	-	726,378	-	738,390	1,464,768
Total assets	3,007,337	6,763,870	2,374,268	738,390	12,883,86 5
Liabilities and equity:					
Customer deposits	3,582,230	5,641,702	-	-	9,223,932
Borrowed funds	-	-	1,363,276	-	1,363,276
Other liabilities	-	461,733	-	-	461,733
Shareholders' funds	-	1,833,010	-	1,914	1,834,924
Total liabilities and equity	3,582,230	7,936,445	1,363,276	1,914	12,883,865

Statement of financial position as at 31 December 2019

	Corporate banking KShs'000	Retail banking KShs'000	Treasury KShs'000	Other KShs'000	Total KShs'000
Assets					
Short term funds	-	475,322	2,692,500	-	3,167,822
Loans	2,569,196	4,799,837	-	-	7,369,033
Other assets	-	680,124	-	644,672	1,324,796
Total assets	2,569,196	5,955,283	2,692,500	644,672	11,861,651
Liabilities and equity:					
Customer dep osits	2,129,325	6,666,349	-	-	8,795,674
Borrowed funds	-	-	720,000	-	720,000
Other liabilities	-	351,263	-	-	351,263
Shareholders' funds	-	1,994,714	-	-	1,994,714
Total liabilities and equity	2,129,325	9,012,326	720,000	-	11,861,651

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

a) Contingent liabilities

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

	2020 KShs'000	2019 KShs'000
Acceptances and letters of credit	100,392	36,467
Guarantees	1,001,865	721,845
	1,102,257	758,312
Litigations against the bank	2,342,978	2,246,847

Nature of contingent liabilities:

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

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

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

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

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

b) Commitments to extend credit

	2020 KShs'000	2019 KShs'000
Other commitments to lend	1,847,436	386,799
Undrawn formal stand-by facilities and credit lines	400,369	433,107

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

c) Capital commitments

	2020 KShs'000	2019 KShs'000
Authorised but not contracted for	44,638	163,945

Capital commitments relate to; investment in ICT cyber security and replacement of computers and equipment for the branches.

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

d) Operating lease commitments
Rental income earned during the year was KShs 60,871,000 (2019– KShs 71,027,811). At the reporting date, the Bank had contracted with tenants for the following minimum future lease receivables:

	2020	2019
The Bank as a lessor:	KShs'000	KShs'000
Within one year	52,096	53,979
In the second to fifth year inclusive	168,763	150,497
After five years	13,811	-
	234,670	204,476

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

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

e) Foreign exchange contracts

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

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

	Carrying value assets	Carrying value liabilities	Notional amount
At 31 December 2020	KShs'000	KShs'000	KShs'000
Derivatives in economic hedge relationships:			
Foreign exchange contracts	1,240	-	112,700
At 31 December 2019			
Foreign exchange contracts	685	-	61,860

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

43. RELATED PARTY TRANSACTIONS (Group and Bank)

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Placings are made in the Bank by Directors, their associates and companies associated to Directors. Advances to customers at 31 December 2020 include advances and loans to companies associated with the directors. Contingent liabilities at 31 December 2020 include guarantees and letters of credit for companies associated with the Directors.

	Directors	
Movement in related party balances was as follows:	**2020 KShs'000**	**2019 KShs'000**
Loans and advances:		
At 1 January	-	-
Advanced during the year	1,500	-
Interest earned	100	-
Repaid during the year	(1,206)	-
At 31 December	394	-

As at 31 December 2020 loans and advances to staff amounted to KShs 633,944,000 (2019 – KShs 365,649,703). The loans and advances to related parties are performing and are adequately secured.

	Directors and employees	
	2020 KShs'000	**2019 KShs'000**
Customer deposits:		
At 1 January	30,330	36,863
Placed during the year	1,781,123	1,260,033
Net interest applied	877	711
Withdrawals	(1,777,461)	(1,267,277)
At 31 December	34,869	30,330

Payments made on behalf of CBL Insurance Agency Ltd are as follows:

	2020 KShs'000	**2019 KShs'000**
Staff costs	6,178	9,288
Administrative expenses	7,868	2,880
	14,046	12,168
Due from subsidiaries		
CBL Insurance Agency Ltd	7,555	17,079

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

Key management compensation

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

	2020 KShs'000	**2019 KShs'000**
Short term benefits		
Salaries and other benefits	135,900	131,202
Fees for services as Directors	12,961	12,476
	148,861	143,678

43. RELATED PARTY TRANSACTIONS

(Continued) Staff number

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

	2020	2019
Number of staff	256	258

44. DISTINCTION BETWEEN CURRENT AND NON-CURRENT

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

As at 31 December 2020	GROUP Within 12 months	GROUP After 12 months	GROUP Total	COMPANY Within 12 months	COMPANY After 12 months	COMPANY Total
	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Assets						
Cash and balances with Central Bank of Kenya	702,185	-	702,185	702,185	-	702,185
Balances due from banking institutions	279,515	-	279,515	279,515	-	279,515
Financial assets at amortised cost	123,576	1,848,807	1,972,383	123,576	1,848,807	1,972,383
Loans and advances to customers	3,324,447	5,140,567	8,465,014	3,324,447	5,140,567	8,465,014
Other assets	305,876	-	305,876	305,856	-	305,856
Due from subsidiary	-	-	-	7,555		7,555
Equity instruments at fair value through other comprehensive income	7,920	-	7,920	7,920	-	7,920
Taxation recoverable	6,483	-	6,483	6,483	-	6,483
Property and equipment and Right of Use Assets	-	929,775	929,775	-	925,819	925,819
Intangible assets	-	208,415	208,415	-	206,714	206,714
Prepaid operating lease rentals	-	6,299	6,299	-	6,299	6,299
Total Assets	4,750,002	8,133,863	12,883,865	4,757,537	8,128,205	12,885,742
Liabilities						
Deposits and balances due to banking institutions	63,276	-	63,276	63,276	-	63,276
Balances due to Central Bank of Kenya	1,300,000	-	1,300,000	1,300,000	-	1,300,000
Customer deposits	9223932	-	9,223,932	9,223,932	-	9,223,932
Other liabilities	461,733	-	461,733	461,435	-	461,435
Total liabilities	11,048,941	-	11,048,941	11,048,642	-	11,048,642
Net	(6,298,939)	8,132,161	1,834,924	(6,291,105)	8,128,205	1,837,100

45. INCORPORATION

The Bank is domiciled and incorporated in Kenya under the Kenyan Companies Act.

46. CURRENCY

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

47. SUBSEQUENT EVENTS.

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

Appendix 1

Statement of Comparison Actual and Budget:

a) Statement of Financial Position

	Actual 31 December 2020	Budget 31 December 2020	Performance Variance	Variance	Remarks
ASSETS	KShs'000	KShs'000	KShs'000	%	
Cash and balances with Central Bank of Kenya	702,185	777,700	(75,515)	(9.7%)	Lower level of cash ratio requirement due to lower deposits levels
Balances due from banking institutions	279,515	297,627	(18,112)	(6.1%)	Lower due to reduced lower level of operations and liquidity Based on the available level of liquidity
Financial assets at amortised cost	1,972,383	2,194,337	(251,954)	(10.1%)	Reduced loans demand due to COVID 19disruptions
Loans and advances to customers	8,465,014	9,524,168	(1,059,154)	(11.1%)	Due to increase in mobile money balances to support
Other assets	305,876	226,277	79,599	35.2%	increase digital banking usage
Equity instruments at fair value through other comprehensive income	7,920	7,747	173	2.2%	Based on the price fluctuations at the NSE
Taxation recoverable	6,483	6,204	279	4.5%	Based on the tax computations and tax paid during the year
Property and equipment and Right of Use Assets	929,775	906,963	22,812	2.5%	Change in the level of rig ht of use assets and depreciation
Intangible assets	208,415	220,381	(11,966)	-5.4%	Due to investment in security infrastructure and digital banking platform
Prepaid operating lease rent als	6,299	6,358	(59)	(0.9%)	Due to higher depreciation than budgeted
TOTAL ASSETS	12,883,865	14,162,762	(1,278,897)	(9.1%)	

LIABILITIES AND SHAREHOLDERS' FUNDS					
LIABILITIES					
Deposits and balances due to banking institutions	63,276	-	63,276	100%	Higher borrowing to cover the gap in the level of deposits
Balances due to Central Bank of Kenya	1,300,000	350,000	950,000	271.4%	Higher borrowing to cover the gap in the level of deposits
Customer deposits	9,223,932	11,589,726	(2,365,794)	(20.4%)	Due to the disruptions in business arising from the COVID 19 pandemic
Other liabilities	461,733	371,459	90,274	24.3%	Due to higher accrerual and sundry creditors than earli budgeted
TOTAL LIABILITIES	11,048,941	12,311,185	(1,262,244)	(10.3%)	
SHAREHOLDERS' FUNDS					
Share capital	3,719,530	3,719,530	-	0.0%	Based on the share capital
Revaluation surplus	465,672	441,770	23,902	5.4%	Based on the revaluation of land and buildings
Accumulated deficit	(2,894,138)	(2,830,030)	(64,108)	2.3%	Due to higher than budgeted loss
Statutory reserve	536,808	518,495	18,313	3.6%	Based on the level of IFRS and CBK impairment provisions
Fair value reserve	7,052	6,812	240	3.5%	Based on the revaluation of equity instruments based on the price at NSE
TOTAL SHAREHOLDERS' FUNDS	1,834,924	1,856,577	(21,653)	(1.2%)	

Appendix 1

b) Statement of Comprehensive Income

	Actual 31 December 2020 KShs'000	Budget 31 December 2020 KShs'000	Performance Variance KShs'000	Variance %	Remarks
INTEREST INCOME	1,064,829	1,176,856	(112,027)	(9.5%)	Due to lower than budgeted level of advances as a result of the subdued demand
INTEREST EXPENSE	(421,380)	(436,233)	14,853	(3.4%)	Due to lower level of deposits and cost of funds
NET INTEREST INCOME	643,449	740,623	(97,174)	(13.1%)	Due to lower level of interest income than budget
Fee and commission income	292,202	369,023	(76,821)	(20.8%)	Due to reduced business activity arising from the COVID 19 disruptions
Foreign exchange trading income	19,943	22,584	(2,641)	(11.7%)	Due to reduced business activity arising from the COVID 19 disruptions
Other operating income	342,939	325,400	17,539	5.4%	Due to increase in recoveries from NPL
OPERATING INCOME	1,298,533	1,457,630	(159,097)	(10.9%)	
Operating expenses	(1,330,984)	(1,338,269)	7,285	(0.5%)	Due to prudent management of expenses
Credit loss expense on loans and advances	(226,374)	(227,234)	860	(0.4%)	Due to improved asset quality
Credit loss expense on balances due from banking institutions	(53)	-	(53)	100%	
LOSS BEFORE TAXATION	(258,878)	(107,873)	(151,005)	140%	
INCOME TAX CHARGE	(15,304)	(13,140)	(2,164)	16.5%	
LOSS FOR THE YEAR	(274,182)	(121,013)	(153,169)	127%	

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

Statement of Issue	Position in 2020	Outlook
Material uncertainty related to going concern The bank incurred a net loss of KShs 529,548,000(2018 KShs 540,446,000) resulting into a reported accumulated deficit of KShs 2,562,072,000 (2018 KShs 2,061,222,000) and as of that date the bank had a regulatory capital to risk weighted assets ratio of 13.5% (2018: 1%) against a regulatory minimum required of 14.5%. The bank received KShs 1.6 billion from the majority shareholder on 22 October 2019. This amount was applied to settle the Medium-Term Note of KShs 1.52 billion that matured on 22 July 2019 but extended to 22 October 2019. The receipt pushed the shareholding of National Treasury to 93.4%. These conditions alongside other matters disclosed under the same note are indicative of the Bank's inability to continue as a going concern.	Following the injection of capital of KShs 1.6 billion in October 2019 the board and management put in a turnaround strategic plan for 2020-2022. According to this plan the bank expected to reduce the operating loss by over 60% and turn to month on month profit by the fourth quarter of 2020. Although the implementation of the plan was disrupted by the disruptions of the COVID-19 pandemic, the bank managed to reduce the loss after tax by 48% to KShs 276 from KShs 530 million in 2019. The total regulatory capital to risk weighted assets ratio was however 9.2% (2019: 13.5%) against a regulatory minimum ratio of 14.5%.	The Board and management have put in place a business plan which anticipate the bank to turn around to profitability in 2021. The bank plans to leverage on the digital banking platform and product innovation to increase customer numbers and grow non funded income. The Bank also plans to significantly grow its deposits and net advances to increase interest revenue. Specific marketing and promotional initiatives will be implemented to ensure the bank taps cheaper deposits through the retail branch network and digital platforms and improve both cost of funding and liquidity. Consolidated Bank Kenya limited, being a state corporation, efforts will be made to ensure it taps cheaper deposits from state corporations and other government agencies. Raising fresh capital to finance growth and maintain healthy prudential ratios is of paramount importance. The Board is engaging the National Treasury and other potential shareholders to inject additional capital in the Bank to ensure compliance with the prudential capital ratios. The National Treasury, the majority shareholder with 93.4%, is committed to continue to support the Bank to meet regulatory capital ratios and implement the 2021 turnaround strategy.

Consolidated Bank

Growing with you

Consolidated Bank is regulated by the Central Bank of Kenya